

**Title: The Internationalisation of the Small-to-Medium Sized Enterprise (SME):  
A Critical Realist Approach**

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## **ABSTRACT**

### **The Internationalisation of the Small-to-Medium Sized Enterprise (SME):**

#### **A Critical Realist Approach**

**By**

**Jonathan Graham Lashley**

The Small- to Medium- Sized Enterprise (SME) has attracted the attention of researchers and governments because of the increasingly important role it is playing in national and international economies. The current research is directed towards understanding the internationalisation of this important economic unit, specifically the internationalisation of SMEs in the East Midlands region of the United Kingdom.

The research adopts a critical realist philosophy, used by researchers to explain the decision-making process, and applies it in a different context to provide insights into the internationalisation process of the SME. A critical realist approach is used as it enables an understanding of the roles of structures and the contingent environment in facilitating differing levels of SME internationalisation. These are factors that are believed to operate at a level below that of the observable.

The study adopts a mixed methodology (a questionnaire survey and two company case studies) that identifies three main issues, including, the international orientation of the industry, previous international experience of management, and the age of the firm. The survey also identified two other issues, perceptions of competition levels, and technology. All of these factors heavily influenced the differing internationalisation levels seen.

The two case study companies were used to illustrate the issues at a real level, highlighting the effect of the structures of the capitalist mode of production and the supply chain. The roles of these structures were shown as not deterministic, as the affect of structure was only exhibited under particular contingent conditions in the external and internal environments.

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**CHAPTER 1: AN INTRODUCTION**

## 1.1 Background

Previous research on the internationalisation of the firm has been criticised for being too deterministic (Chetty & Hamilton, 1993) with the use of a step-by-step stage model approach originally based on the work of Johanson and Vahlne (1977). This criticism, coupled with the increasing importance of Small-to Medium-Sized Enterprises (SMEs<sup>1</sup>) on international markets, means there is a need for more in-depth, non-deterministic, research into the internationalisation process of these firms'. If a clearer picture of the process can be provided, concerning how SMEs become involved in international markets, the factors important in triggering internationalisation, and the barriers experienced, then the wealth-generating potential of these organisations may be released.

There are several modes by which the SME can become involved in international markets. These modes differ in terms of commitment by the firm and, starting from a lower level of commitment, the following list shows the options open to the firm:

- Indirect exporting through an agent
- Direct exporting through sales representatives
- Foreign sales offices
- Joint ventures/strategic alliances
- Licensing of production abroad
- Foreign direct investments

The following study concentrates on the first two exporting options.

Critical realism is the framework drawn on here to assist in the provision of an appropriate method of analysis, using both extensive and intensive analytical methods to understand the causal influences underlying the SME internationalisation process. To this end the firm is investigated in depth. In previous research, problems at the level of method stem from a

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<sup>1</sup> The definition of SMEs is based upon the European Commission's Common Definition for SMEs published in "This Week in Europe", 15 February 1996. The definitions are: medium-sized enterprises, 50 -250 employees and less than 40 million ECU turnover (or balance sheet total up to 27 million ECU); small enterprises, less than 50 employees and annual turnover below 7 million ECU (or balance sheet total up to 5 million ECU); and very small enterprises, less than 10 employees. In addition no more than 25% of the enterprise may be owned by a larger enterprise.

reliance on the extensive method used by positivists (and their interpretation of quantitative results) and the intensive method used in more recent network and behavioural approaches. The aim here is *not* to criticise the use of extensive or intensive methods, but more to criticise the single-minded reliance researchers place on either approach. Used together they can provide a greater understanding of the overall SME internationalisation process.

## **1.2 Inspiration**

This thesis is inspired by three factors related to both the SME and internationalisation in general. First, a majority of studies on internationalisation, especially in the area of direct investments (Dunning, 1977), have concentrated on larger organisations; their reasons for internationalisation, the process of internationalisation and the main determinants of internationalisation (Vernon, 1966). The relevant processes for SMEs have been ignored by researchers until recently, and SMEs are considered here to follow a different path.

Second, studies that have concentrated on SME internationalisation have approached the study using a framework similar to that used to study larger organisations (Czinkota, 1982). This is a result of the influence of the original work of Johanson and Vahlne (1977), who formulated the stage approach by studying four large Swedish firms. The stage approach was subsequently adopted by researchers as a framework, but because of a belief that the SME's internationalisation path would be more straightforward to research, researchers used the SME as the object of study (Cavusgil, 1982). The individual characteristics of SMEs have mostly been ignored. These studies, with their use of a deterministic stage approach to SME internationalisation, lack a deeper understanding of the roles played by the personality of the key actors within each organisation, the character of the industry within which they operate, and the importance of the *perception* of prevailing external conditions.

The third factor to inspire this thesis is the rising importance of the SME in the world economy, where SMEs in Europe employ over 60% of the working population (Storey, 1994). This importance is not only in terms of employment levels and employment potential, but also in terms of the role SMEs will play in the dawning era of alliance

capitalism<sup>2</sup> (Dunning, 1995) as discussed below. The SME is essentially a different creature to larger organisations and therefore a different research topic (see Table 1).

**Table 1: Some Differences between SMEs and larger companies**

<b>SMEs</b>	<b>Large Companies</b>
Less rational results in decision-making due to lack of planning. Lack of planning due to lack of resources and time.	More rational/economic decision-making
More personal	Clearer separation of ownership and control
More dynamic/flexible	Greater rigidities in company structure
Niche market orientated	More profit, sales and growth orientated
Level of risk aversion dependent on decision-maker(s)	Risk averse
Less resources-(financial, personnel, technological)	

Adapted from Buckley (1989), Dunning (1995), and Fujita (1995).

Owing to the nature of SMEs, a critical realist approach is believed to be the most credible approach to understanding them. Unlike larger companies, SMEs will reflect the motives and character of the decision-maker(s) to a greater degree. Larger firms, with a variety of personnel involved in the decision-making process, all with different goals and beliefs, will tend towards rational or economic decisions, akin to the reduction in risk with diversification in portfolio investments. SMEs, therefore, need a research-based approach that draws on the best qualities of both quantitative and qualitative research techniques to investigate the motive behind decisions that affect the SME's internationalisation path.

The questions asked here concerning SMEs, involve more complex answers than those for larger companies. These answers will be more complex because of the differences shown above in Table 1, and the fact that the perceptions and surrounding environment of the decision-maker will more heavily influence the decisions made.

<sup>2</sup> Dunning (1995) defines alliance capitalism as the method of retaining surplus capital by both competition and co-operation between agents through strategic alliances.



The main questions being asked are therefore:

- What is the process by which SMEs become involved in international markets?
- Why do SMEs become involved in international markets? (Including the underlying incentives and facilitating factors for the internationalisation of the SME?)
- What are the roles played by the external and internal environments?
- What are the main barriers to SME internationalisation?

By conducting a questionnaire survey in conjunction with in-depth case studies, and with reference to previous research, a better understanding of the answers to these questions can be attained than those provided by stage growth models alone. Overall, the study seeks to understand how structures<sup>3</sup> interplay with the prevailing contingent environment to affect the internationalisation of the SME.

### **1.3 Theoretical Issues**

This rising importance of the SME is noted by Dunning (1995) to be related to customer demands for greater flexibility in production, and to diminishing advantages of large scale production due to advances in technology and process innovation. With the advent of this era termed “alliance capitalism” by Dunning (1995), the SME is playing an integral role in the internationalisation of production. Dunning’s views are expressed below.

*“... yesterday’s commercial behemoths are tomorrow’s dinosaurs. The reasoning behind this assertion that ‘small is beautiful’ is that modern production methods, accelerating technological advances, more demanding consumers and the growing importance of services, are all eroding the advantages of large plants based on a continuous, scale-friendly and relatively inflexible production system.” (Dunning, 1995, p. 470.)*

The main problems in the original internationalisation literature of Johanson & Vahlne (1977), and some of the more recent contributions (Bera, Piatti and Vitali, 1995), stem from three main factors:

- the underlying theoretical framework is inappropriate to the object of study and is not explicit

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<sup>3</sup> The term structure relates to an accepted set of practices that guide human agency, i.e. capitalism as structure guides firms to try and retain surplus value. Sayer (1984) describes structure as a set of internal objects or practices that are related. Structures both constrain and enable human agency.

- the method of approach used is deterministic
- the lack of a coherent approach to the study of the internationalisation of the SME

These issues will be addressed here. They cause problems because an explicit theoretical framework is needed to inform method, and even more recent studies do not have this foundation.

The problems stem from an unquestioning reliance on positivism and deductivism by the original stage model approaches used in the 1970s, and the lack of an explicit underlying framework by more recent research (Chetty, 1996; Bell, 1995). The main shortcoming of such approaches as positivism, is that it takes the framework as implicit in method, and collapses theories about being (ontology) into theories about what is known (epistemology), creating a picture of reality where all that exists is what is known or observable.

Although more recent works (Chetty and Hamilton, 1996) provide a method of analysis where greater causal understanding is achieved, no explicit framework is given. This and the other issues concerning theoretical framework will be dealt with in this thesis by providing an explicit framework from which to construct a method of analysis appropriate to the object of study, the SME. The approach used here stems from an appreciation of critical realism which endeavours to “tease out” the causes of events, at a deeper level than that investigated by positivism, by understanding the interplay between structure and contingent circumstance. Critical realism’s rejection of a reliance on positivism’s conception of causation and isolated experimentation is one of the central tenets of this philosophy, which holds that experimentation is impossible in an open system such as society. These and other issues are dealt with in more depth in Chapter 3.

## 1.4 Aims of the Study

The main aims of the study are outlined below and draw on previous research in the fields of economics, geography and social science philosophy to fulfil them. These aims are as follows:

- To identify the extent to which SMEs in the East Midlands<sup>4</sup> are involved in the international market and their main attributes
- To understand the factors that cause differing internationalisation levels
- To demonstrate the use of a critical realist framework in supplying a practical method for the study of SME internationalisation.

“How does the internationalisation process operate?” and “Why does it operate in the manner it does?” are the main focus for the first of these aims, whereas the main focus for the second aim is to establish the main structural and contingent influences on SME internationalisation.

These aims will be achieved initially by a review of research in the area to establish the important factors/issues identified by other researchers as being important in the SME internationalisation process. This review will provide a basis from which the current study can begin to outline the areas for deeper investigation. Following this, a questionnaire survey is used to determine the conditions under which SMEs in the East Midlands are operating. The survey is used to provide a descriptive account of the research sphere and identify the observable conditions that are of relevance. This forms the extensive element of the research and is used to provide an insight into areas for deeper investigation. By establishing these conditions, and any tendencies<sup>5</sup> shown by firms in the survey, more in-depth research can then attempt to establish the causal influences of these phenomena in a critical realist sense. The research method therefore, (1) establishes the areas for deeper investigation by the use of extensive method, and (2) draws on these signposts in the use of intensive method.

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<sup>4</sup> The East Midlands region of the United Kingdom includes the counties of Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire.

<sup>5</sup> Lawson (1997) describes tendencies (or demi-regularities) as phenomena that more often than not occur under certain conditions. They are however not causal or pre-determined, but appear as a state of affairs that “tend” to occur, this does not mean that they will occur whenever certain conditions exist, because the appearance of certain contingencies may lead to the phenomena not occurring.

The intensive method draws on the case study approach of Yin (1984; 1989) to establish the causal influences of SME internationalisation. Yin's approach is, however, adapted to retain the integrity of the critical realist approach. Yin (1989) uses an approach that incorporates elements of experimentation that go against a critical realist approach, as critical realism rejects positivism and the inferences made from this type of experimentation. An important caveat is that the survey used here is purely for descriptive purposes, and is not intended to provide any predictive or generalisable results. On the other hand, the case study approach is deemed acceptable here because it provides insights into the influences on phenomena by investigating the object of analysis, the SME, in-depth, achieving the goals set out in the second aim of this research.

This approach is how the current research differs from positivist works, where quantitative research is used here to provide description, not generalisation or prediction. As Holt-Jensen (1988) states:

*"Quantitative methods may be employed by both critical and positivist schools of thought." (p.104)*

Johnston (1986) also supports this proposal, stating that:

*"...empiricism, positivism and empirical research are not the same thing, and that quantification is not exclusive to a single philosophy." (p.52)*

Ameliorating this division is discussed in depth in Chapter 3.

The following study therefore endeavours to highlight the important aspects of SME internationalisation. It is important to appreciate that the process of an SME internationalising may not be as deterministic as claimed by researchers in the early 1970s (Johanson & Vahlne, 1977). SME internationalisation is related to a myriad of factors both internal and external to the firm. These factors include not only the oft-referenced contingent managerial characteristics (O'Farrell, Wood & Zeng, 1998), but also the nature of the product in question, the industry within which the firm operates, the history of the firm itself and the effect of surrounding structures.

The study attempts to understand the process by which SMEs become involved in international markets, specifically the exporting process. It aims to provide answers to the "how" and "why" questions surrounding the process. The study is interested in identifying a variety of factors that influence operation in international markets by SMEs, including:

- Factors that facilitate internationalisation of the SME.

- Factors that act as triggers to the SME becoming involved in international markets.
- Barriers to the internationalisation process.
- Factors that affect market and modal choices (i.e. direct and indirect exporting).

Although stage models are refuted as deterministic and lacking an understanding of causality in a critical realist sense, it is believed that the majority of SMEs entering the international marketplace will begin with exporting. The possibility of leap-frogging stages is, however, appreciated and observed.

### **1.5 Specifics of Method Applied**

To fully appreciate the complexity of the internationalisation process, the following study employs a two-pronged, mixed, methodology. In the first instance, to obtain a picture of the basic characteristics of manufacturing SMEs in the East Midlands region, a questionnaire survey was sent to over 400 SMEs that met particular selection criteria and included both exporters and non-exporters. The survey is covered in depth in Chapter 5.

Following the questionnaire survey, to demonstrate the complexities involved in the internationalisation decision, two companies were selected as case studies. The benefit of using the case-study approach is that it enables the results and tendencies identified from survey research to be explored at the level of the firm. Case study research provides insights into causality, as defined by critical realism, and details of the processes involved. Further discussion of the rationale for the use of the case studies is explained in Chapter 4.

The theoretical framework for the present study is a critical realist one. Essentially a critical realist methodological framework attempts to identify the underlying causes of any phenomena, investigating them at three separate levels: observable events, mechanisms and structures. These structures are believed to govern mechanisms that result in observable events. This framework is essentially opposed to the positivist frameworks that only identify the direct correlates of any process, assuming the world to be made up of only observable phenomena. In this vein, positivist studies have been criticised for their concept of causality (Lawson, 1997), where causality is related to correlations and regularities, which critical realists consider to be ‘surface’ phenomenon. Critical realism challenges this conception of causality. Whereas positivists believe that *“pattern and regularity are the guiding indicators of causality”* (Cloke *et al*, 1991: p.156), critical realists believe that *“we need to look for the mechanisms within deep structures”* (Holt-

Jensen, 1988: p.11). Critical realism, therefore, attempts to identify causality by understanding the structures of importance and the relevant contingent environment that causes SME internationalisation outcomes.

In the present research, not only are the direct correlates of the internationalisation process established from previous research examined, but also the underlying structures, mechanisms, and tendencies that govern the process. This will provide a deeper understanding of the entire process by which SMEs become involved in, and sustain activity in, international markets.

The study also acts as a demonstration of the usefulness of the case study approach in providing a clearer understanding of a process in a real context. By providing an alternative philosophy that appreciates path-dependency, the belief that history is important, clearer policy formulations, or indeed more flexible policy formulations, may be accommodated.

## **1.6 Chapter Descriptions**

The research is structured as follows. In Chapter Two: A Review of Recent Research, an introduction to previous research on internationalisation, and more specifically, the internationalisation of the SME is provided. The reviewed literature on the internationalisation of the SME follows two schools of thought. First are studies that concentrate on a stage model approach to internationalisation and secondly, studies that take a more holistic perspective of a company's operations.

The conflicting principals encountered in these two schools of thought are the positivist approach to the study of SME internationalisation used by stage approaches, and the more context-dependent studies that have developed more recently. Case studies are frequently used in more recent research, even though one of the original works on internationalisation, Johanson and Valne (1977), used case studies in developing its stage approach. The chapter analyses the progression of internationalisation theory chronologically, culminating in a review of recent studies that have used case study research to validate inferences and conclusions.

Chapter Three: Critical Realism and the Study of the SME, provides a theoretical framework for the subsequent research on SME internationalisation, as a means to inform and enhance theory. The adoption of a critical realist framework is justified by the exposure of the shortcomings of positivism to the study of the SME. Initially, a definition

of terms used is provided to introduce the philosophical nature of the argument. Following this, a critique of positivism is developed to expose its inappropriateness in the study of the SME, where a closed system approach is used to study what is essentially the open system of society. The lack of *ontological* enquiry by previous positivist research, enquiry into the nature of human *being* (and that which is unobservable), and defining all knowledge as what is gained through experience, is criticised in favour of a more stratified version of reality where there is a role to be played at the level of structure.

An explanation of the foundations of critical realism in the social sciences is given to show its relevance to the study of the SME and the myriad of factors that influence its internationalisation path. By the provision of both *ontological* and *epistemological* study, a layered version of reality is presented where society is considered as made up of structures, mechanisms, and events, reproduced and transformed through the action of human beings. The interdependent nature of structure and agency where, without humans, societal structure would not exist, and without structure, human agency would not exist, is examined with reference to the study of the SME. The consequences for methodology are highlighted to produce a clearer picture of the intentions and procedures of the current research.

Chapter Four: The Methodological Overview, leads on from the previous chapter where the methods used are applied more rigorously. Lessons drawn from previous research reviewed in Chapter Two are used to avoid the pitfalls of previous attempts to investigate the internationalisation process of the SME.

A description of the company selection process, analytical frameworks, and general goals are described to provide a general understanding of the direction the applied research is taking. The case study process is also introduced with reference to research that has used this method to explain the internationalisation of the SME. The appropriateness of this method under a critical realist framework is also referenced. Following this, the main elements of case study research are introduced with details of the particular methods applied.

The case study procedures, as applied to the current study, are then detailed along with descriptions of the main issues for investigation. After the description of method, the chapters that follow detail the information gathered in the case reports, followed by a cross-case analysis with reference to the original tendencies identified in previous research

and the questionnaire survey. These chapters follow the review of the survey results in Chapter Five.

The two companies for the case studies were selected to provide a vision of a high-technology company's and a low-technology company's internationalisation process. The high-technology firm is also a high-level exporter, and the low-technology firm a low-level exporter. The details of information gained from interviews, documentary evidence and industry profiles are presented for each case as a basis for drawing inferences on the factors influencing the internationalisation process.

In Chapter Five: The East Midlands SME Questionnaire Survey, the details of the survey are defined, especially with reference to the details of the selection process, response rates, secondary data analysis, and the results of the survey itself. Respondent bias is analysed as a further check on the robustness and completeness of the research. This is achieved by analysing the characteristics of respondents and non-respondents using a secondary dataset of a sample of firms obtained originally from Companies House.

For the respondent group of companies, replies are analysed and compared in various sub-groupings including exporters and non-exporters, high technology and low technology, young firms and old firms, and small- and medium-sized firms. A locational analysis is also presented to provide an understanding of the environment in which these firms are operating. Preliminary conclusions and issues for further investigation are subsequently discussed. The case reports and cross-case analysis follow these in Chapters 6, 7, and 8.

In Chapter Nine the results of the research are discussed and assimilated to provide insights into the internationalisation process. Drawing on the two-pronged research method (a quantitative analysis of a questionnaire survey and a qualitative analysis of two case studies), and with reference to the theoretical framework, lessons learnt are discussed in order to provide a deeper understanding of the internationalisation process of the SME. By using these two methodologies, which critical realists describe as the concrete element of the research, previous theoretical analysis (abstract research) can be used to complement this and build a clearer picture of the structures, mechanisms, and tendencies at work within the SME/international marketplace relationship (Sayer, 1984).

The research shows that the internationalisation of the SME is not as deterministic as previously represented in stage-growth models. The character of the industrial sector, the character and the aims of the decision-makers, the perceptions of international trade, and the general state of the economy all affect the internationalisation of the SME. These



effects are however not direct correlate effects. They are interrelated, with perceptions affecting aims, and aims affecting perceptions. A firm with a general perception that its market is worldwide may not perceive the effect of unfavourable exchange rates as a serious hindrance but as an annoyance. A firm that considers exporting as a risky market choice may view exchange rate variations as a reason to exit, or reduce its commitment to, the international market.

The main conclusions are expressed to support the contribution the research has made to the field. Future research questions and directions are also discussed.

**CHAPTER 2: A REVIEW OF RECENT RESEARCH**

## **2.1 Background**

This chapter will review the research literature on the internationalisation of companies, with specific reference to the internationalisation of SMEs. There have been two main approaches to research in this field. Originally, in the 1970s, research centred on a stage model of internationalisation, based on the work of the Uppsala School (Johanson & Weidersheim-Paul, 1975), and commonly referred to as the establishment chain theory. Recently, there has been a trend away from the quantitative base that the Uppsala School followers used (despite the original Uppsala work being qualitative), towards more qualitative research (Chetty, 1996). This other stream of research, which has developed more recently, has centred upon behavioural and network models that investigate the process in greater depth (Chetty & Hamilton, 1996). This school is referred to here as the New Zealand School. These two modes of analysis will be reviewed, and the main results of previous research discussed.

Research into the internationalisation of SMEs has not only covered the process as incremental, but has also more recently, in the works of the New Zealand School, attempted to incorporate the myriad of factors influencing the process as triggers and facilitators. These have included studies of determinants, information needs, market selection influences, modal choice factors, and methodological problems stemming from an historical reliance on positivism and determinism.

The process of internationalisation is therefore seen from a number of perspectives. The Uppsala School proposed that growth occurs incrementally, while more recent models propose the process to be more establishment-specific, unique to the character of the firm itself. These models deal in greater depth with context (internal and external) and the role of networks.

The literature review is structured as follows. An examination of the main characteristics of the stage approach is analysed initially, including the main criticisms that have prompted further research from a more firm-specific perspective. Following this, a more detailed and in-depth analysis is given to the more recent and robust approaches that incorporate elements of both behavioural and network models.

## **2.2 The Stage Approaches to Internationalisation**

These step-by-step models are mainly concerned with the move by organisations from being a non-exporter to being an active exporter, leading to deeper internationalisation at each successive stage.

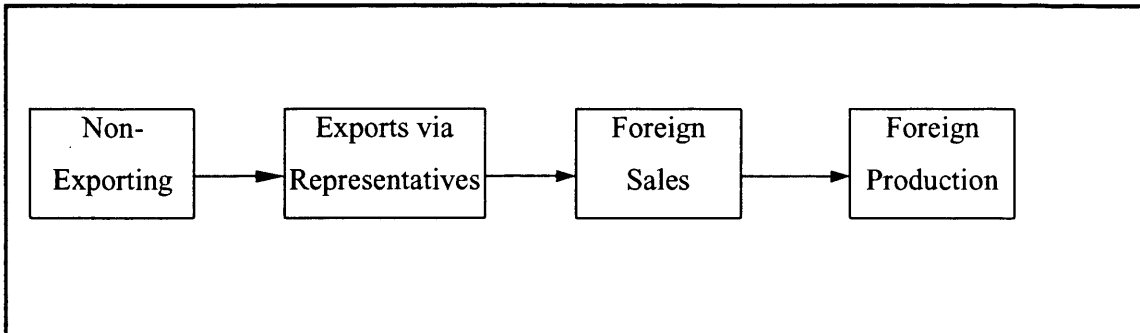
The rest of this section is organised as follows. Firstly, the character of these stage models is discussed below, including discussion of the number of stages used and the direct correlates of the process. Secondly, the methodological frameworks of the models are analysed from both a philosophical and technical point of view. The main criticisms of these stage models and their applicability to the internationalisation of SMEs are subsequently examined.

## **2.3 Main Characteristics of Stage Models**

Growth models on internationalisation emerged in the 1970s; with the catalyst for them being the works of the Uppsala School on the internationalisation of four large Scandinavian firms (Johanson & Wiedersheim-Paul, 1975). Research of this type into large companies has, however, recently diminished. The move from non-exporting to exporting has been suggested as going through a varying number of intermediate stages, ranging from three stages (Johanson & Wiedersheim-Paul (1975); Moon & Lee (1990)) to the six-stage models suggested by Bilkey & Tesar (1977), Czinkota (1982) and Crick (1995). The existence of post-export stages is also noted (see Johanson & Wiedersheim-Paul (1975)).

The establishment chain theory developed by the Uppsala School (Johanson & Wiedersheim-Paul, 1975), and much criticised in more recent works, proposes that exports will take place via independent representatives, eventually leading to the establishment of a foreign sales subsidiary and eventually foreign direct investment (FDI) (see Figure 1). Commitment to internationalisation is proposed to increase as the organisation moves through stages, and as psychic distance is reduced by incremental learning about distant cultures and foreign operational techniques. The initial stimuli to internationalisation are ignored since the framework used assumes growth as a given target. The facilitator of internationalisation here is, therefore, the reduction in psychic distance and knowledge accumulation by the decision-makers.

**Figure 1: A Diagrammatic Representation of the Uppsala School Model**



Adapted from Johanson & Wiedersheim-Paul (1975)

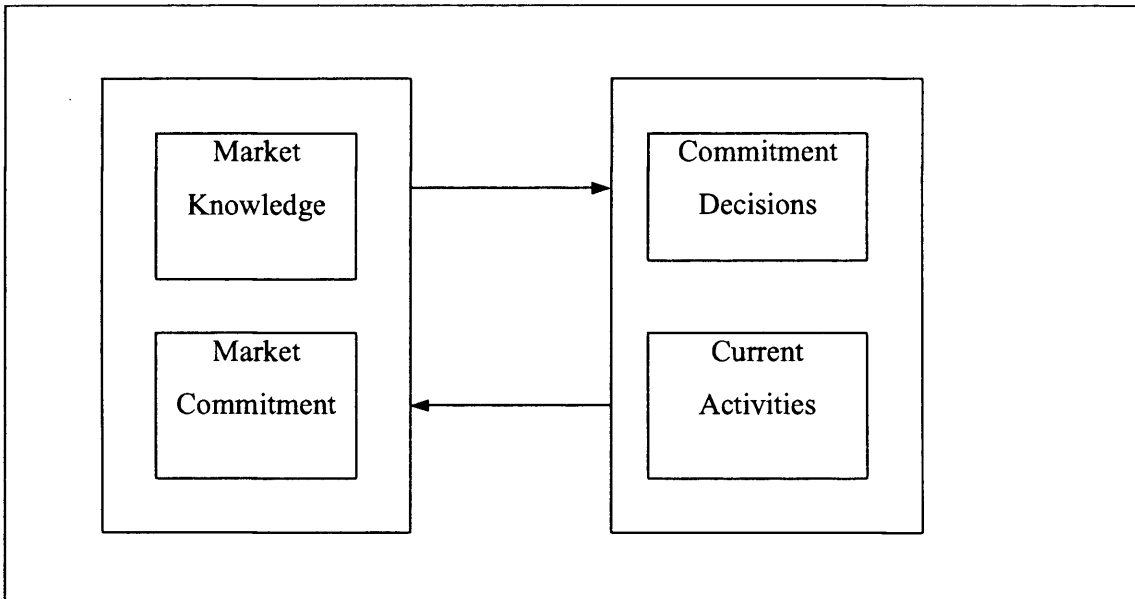
The origin of much of the literature on the internationalisation of the firm, from a stage perspective, originated with the work of Johanson & Wiedersheim-Paul (1975). Despite this core piece taking a longitudinal case study perspective, it is a method mostly ignored by subsequent researchers in this field who gave greater prominence to only using quantitative analyses of cross-sectional surveys.

Leading on from this was the work of Johanson and Vahlne (1977). The authors here draw on much of the original Uppsala research to investigate the importance of experiential knowledge.

Although Johanson and Vahlne (1977) recognise that internationalisation occurs as “... *the consequence of a process of incremental adjustments to changing conditions of the firm and its environment*” (p.46), they persist in their use of the Uppsala stage model with its static characteristics, ignoring the fact that detrimental environmental conditions may lead to stasis or even de-internationalisation. The authors propose that the internationalisation is incremental due to a lack of market information and as this market information increases, so will the level of market commitment. Figure 2 shows the main elements of Johanson and Vahlne (1977) model.

The authors’ measures of location within the stages of internationalisation include levels of market commitment and market knowledge. They propose that the commitment to any foreign market will depend on the opportunities and risks perceived from their knowledge of the market.

**Figure 2: The Main Elements of Johanson & Vahlne (1977) Model of the Internationalisation of the firm**



Source: Johanson & Vahlne (1977)

They, however, make several misleading assumptions, and, despite acknowledging the small incremental steps taken in the export development process, still rely on categorising the process in four distinct stages. The misleading assumptions include categorising internationalisation as an extended form of company growth, and assuming that growth symbolises profit maximising and is implicit in company goals, i.e. all companies want to grow therefore they will all eventually internationalise. Treating internationalisation as an extended form of company growth ignores the serious (and different) resource commitments and strategic implications of international growth as opposed to domestic market growth.

Another assumption/axiom is that the firms are risk averse. This assumption ignores the propensity for risk by entrepreneurs and, as many SMEs are established by entrepreneurs, the risk propensity of SMEs. However, not all SMEs can be considered to be risk-takers. Allen (1988) identifies two types of actors here, Stochasts and Cartesians. Stochasts are considered the risk-taking entrepreneur, and Cartesians the consolidators who imitate instead of innovate. Allen (1988) suggests that both of these economic actors are needed for growth and innovation. Categorising all actors as Cartesians will lead to stagnation. Sarasvathy, Simon, and Lave (1998), however, show that entrepreneurs are not necessarily risk-takers, but instead they are people who see opportunities where others (Cartesians) see risks. This is unlike what the stage approaches propose, where the decision-maker is

considered risk averse. If this was the case and there was no risk-taking, or identifying of opportunities, international growth would not occur. The studies, therefore, that follow this framework and apply them to SMEs are fundamentally misleading because the SME and the entrepreneur are inextricably linked.

The major deficiencies of this work include the **explicit** disregard of the decision-making style of the decision-maker (gut feelings versus informed knowledge) and the specifics of the decision situations, limiting the model's theoretical value, and enabling only generalised observations.

Overall, the Johanson & Vahlne model provides only general insights into the internationalisation process, and is compromised by the disregard for the managerial characteristics and style noted above. The only managerial characteristic they consider to be of any interest is the level of previous international experience and its influence on the process. The model shows that as movements in subsequent markets take place, the length between stages will be reduced, introducing one of the few dynamic elements into the research where feedback effects are evident. Feedback effects are usually ignored. It can, however, be the case that the length of international experience may not be as important as the fact that any international experience has been gained, regardless of length. This proposal suggests that once any international experience has been gained, it will not necessarily have a cumulative effect on the process-time, but an effect that will shorten all further forays into foreign markets by the same amount. Experience gained in one market will provide generic internationalisation knowledge so that the firm learns what to look for, and what information and organisational changes are needed. However, although the generic knowledge will have been grasped previously, specific knowledge will be needed for each market so the process time will not be significantly reduced.

Other important factors to emerge from Johanson and Vahlne's (1977) model, is the proposal that other important *facilitating* factors in the internationalisation process include high research and development intensity, advertising intensity, and product diversification.

In many stage models, the use of evolutionary/sequential models is therefore evident (see Table 2) because of the assumption of an incremental decision-making process, that ignores the potential for "deinternationalisation". The potential for the "skipping" of stages (maybe due to a decrease in internationalisation barriers, or changes in geocentric managerial attitudes or long-term relationships) is also ignored, despite being offered as an important caveat by Johanson & Wiedersheim-Paul (1975).

Despite the realisation by stage researchers that the process is essentially dynamic, and historically dependent, the majority of stage-based studies treat the processes in a static fashion, failing to treat it as a continuum of “microsteps”, preferring instead classification in large distinct steps. This is seen clearly in the innovation adoption work of Lim, Sharkey & Kim (1991) with classification of the four exporting stages of awareness, interest, intention, and adoption. The time-dependency of the process was shown as early as the late 1970s. Bilkey & Tesar’s (1977) empirical tests revealed that export activity was a learning, time-dependent process. However, their reliance on six distinct stages, between lack of interest to committed interest in distant markets, reveals the usual shortcomings. These shortcomings are especially seen where neither an explanation of the threshold levels of information needed to move between stages, nor an explanation of the possibility of backward movement, is given. Further there is failure to recognise the exporting option as only one strategic choice available to the firm.

The remainder of this section will analyse other characteristics of the stage model, including the main focus of the various models, their structural foundations, the arbitrary classifications used, methodological character and the main findings.



**Table 2: A Synopsis of Stage model approaches.**

<b>Authors</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>	<b>Stage 5</b>	<b>Stage 6</b>	<b>Comments</b>
<b>Johanson &amp; Wiedersheim-Paul (1975)</b>	No regular activity	Export through foreign reps.	Sell through foreign subsidiary	FDI			Information acquisition important to movement.
<b>Bilkey &amp; Tesar (1977)</b>	Lack of Interest in exporting	Passive Exploration	Exploring of Feasibility	Experiment with Exporting	Experienced Exporter	Commit to distant markets	Exporting is a learning activity
<b>Wiedersheim-Paul, Olsen &amp; Welch (1978)</b>	Domestic Orientation	Passive Non-exporter	Active Non-exporter				Pre-export concentration. Information acquisition increases as firms move through stages.
<b>Cavusgil (1982)</b>	Pre-involvement	Reactive involvement	Limited involvement	Active involvement	Committed involvement		Several specific managerial and firm characteristics that facilitate/inhibit exporting.
<b>Czinkota (1982)</b>	Uninterested in exporting	Partial Interest	Exploring of possibilities	Experiments in Exporting	Semi-experienced exporter	Very experienced exporters	Firms differ considerably between stages. Empirically validated.
<b>Barrett &amp; Wilkinson (1986)</b>	Uninterested in exporting	Investigating Exporting	Current exporters				Differences w.r.t. management attitudes to planning and international business.
<b>Moon &amp; Lee (1990)</b>	Low Exporters	Middle Exporters	High Exporters				Managerial and organisational factors important in determining export level.
<b>Lim, Sharkey &amp; Kim (1991)</b>	Awareness	Interest	Intention	Adoption			Research from an innovation adoption point of view.
<b>Roa &amp; Naidu (1992)</b>	Non-exporters	Export intenders	Sporadic Exporters	Regular Exporters			Based on classification of firms into stages by secondary data.
<b>Crick (1995)</b>	Uninterested in exporting	Partial Interest	Exporting	Experiments in Exporting	Small experienced Exporter	Very experienced Exporters	Classify firms according to level of exporting and differences found due to customer demands, company requirements, export-related problems and type of government support.

## **2.4 Main Focus of Stage Approaches**

Table 2 shows the variety of stages used to explain the internationalisation process. The activity ranges examined vary from pre-export behaviour, exporting behaviour, to post-exporting activity. The chronological structure of Table 2 shows the change in perspective from one of a basic learning process, to one where a greater amount of behavioural understanding is facilitated, and specific organisational characteristics are understood to be of some importance. Overall, there seems to be interplay between increases in experiential knowledge and greater international market commitment.

The main facilitating factors/determinants used to explain the moves between stages include management experience (the learning curve), management attitudes, customer demands, and government support. All of these factors are believed to assist the firm as they move between stages. Understanding of the relationship between cause and effect are, however, lacking, i.e. why and how does greater management experience (cause) lead to increased internationalisation (effect) (may it be because of capitalist intentions or because of certain contingent circumstances). This is mainly due to the underlying assumptions of these models. Under the assumption that internationalisation is related directly to growth, and a growth orientation directly related to profit maximising behaviour, these stage models endogenise the motivation for export or internationalisation activity. Therefore, these models preclude the existence of choice, a core belief of economics. The implication here is that all firms, if they are in existence long enough, will eventually become involved in export markets. This is shown as a fallacy in the works below that utilise a network/behavioural framework of study.

### **2.4.1 Theoretical Base**

The theoretical basis of the majority of the stage-based studies of internationalisation is undoubtedly positivist, with only a few behaviouralist and network-based studies penetrating the discipline recently. This creates an inherent problem in the literature with a dynamic process being investigated in this static step-by-step manner, where movement between stages is not clearly defined, nor consideration given to any strategic alternatives. The positivist's explanation posits an observable cause and a final effect. The mechanism by which the cause leads to the effect is not made explicit. Critical realism on the other hand, believes that causation rests at a level below that of the observable.

The use of this static approach does not facilitate a deeper understanding of inter- or intra-stage movement, or indeed the time-dependent velocity of movement through the stages. With the use of this stage approach, no information or time thresholds for movement between stages is given. The main theoretical framework here will rely on several assumptions that may be found to over-generalise enterprises that are essentially unique in nature.

The categorisation of the firms into their various stages provides an idea of the needs and demands of each stage of the process. From a synopsis of stage models it can be supposed that firms with managers with a higher level of international experience will be in advanced stages of internationalisation. Questions concerning direction of causation and how this knowledge has been accumulated, or the threshold level of knowledge needed to move from one stage to another, are not answered.

These problems are inherent in the positivist philosophy, where isolation of a variable of interest (exporting or international activity in general), is used to produce only generalisable constructs with only directly correlated variables of interest being analysed. In such a case, causation is attributed to observable events.

In general the models investigated approached the internationalisation topic by concentrating investigation on three main areas: pre-exporting, exporting, and post exporting behaviour, generally from a static perspective. Overall, the research in this area draws on the following conceptual bases recognised by Leonidou & Katsikeas (1996) in empirically validated stage models:

- Linder's (1961) Theory of International Trade which seeks to explain market selection, where the firm initially develops in the domestic market and then into the international market through a series of incremental decisions (Johanson & Wiedersheim-Paul (1975), Cavusgil (1982)).
- Management & Organisation Theory, which seeks to classify firms into stages, based on firm characteristics, the domestic environment, and export research practices. It has been found that firms differ significantly in these characteristics between stages (Bilkey & Tesar (1977), Czinkota (1982), Barrett & Wilkinson (1986), Crick (1995)).
- Location Theory has been used to describe the changes in orientation from domestic to international and its influence on the willingness to export (Wiedersheim-Paul *et al.*, 1978) (Hakanson, 1979);

- Marketing Theory and its relation to the establishment and control of distribution channels influencing greater international involvement, and the effect of innovation adoption theory on the exporting process.

The perspectives taken are criticised for their static approach to explaining the process. This criticism needs justification. In a dynamic world we find several factors influencing any decision, factors stemming not only from economic constructs, but also from personal and network structures. With the exclusion of feedback loops into these systems, we find models such as the stage models described here have little dynamic content (see Olsen & Wiedersheim-Paul, 1978).

The other influencing issue here is that of choice. The economics discipline's main school of thought that provides the base for positivism believes that choice is the foundation of economics (Lawson, 1995). Despite this belief, choice is ignored in the sense that only one option is given, that of growth and hence internationalisation. Generally, the theoretical constructs hold the economic assumptions of growth maximising/profit maximising companies and ignore the establishment-specific character and industrial context that may prove these assumptions to be misleading. Further criticisms are addressed later.

## **2.5 Methodological Issues for Stage Models**

The most important aspects in this part of the research concern:

- fieldwork time and style
- geographic focus
- industrial orientation
- unit of analysis
- key informant

In consideration of *fieldwork time and style*, the majority of studies opted for a cross-sectional analysis<sup>6</sup> despite trying to chart firms' progress over time. The original Uppsala works, however, took a longitudinal perspective. As with the categorising of variables, the static-dynamic confrontation again emerges. With the use of profiles of this type a static picture is painted when considering a situation that is essentially historically and time

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<sup>6</sup> It is not cross-sectional surveys themselves that are objected to here, it is the use of them to infer causation directly.

dependent. The use of this form of analytical mode does not allow for the consideration of the ever-important time-dependent variables, such as changes in organisational resources (including personnel) and allocations, the impact over time of stimulating and impeding factors, and seasonality. Another shortcoming includes the lack of potential for understanding of between stage movement. As Leonidou *et al.* (1996) note:

*“Longitudinal studies are required to assess the dynamic, multivariate and enduring nature of the export development process.” (p.530)*

The basic problem here is akin to using snapshots to explain a movie.

The stage theories for the most part rely on large sample sizes with little consideration of outliers, as seen with Barrett & Wilkinson’s (1986) large-scale mail survey of over 1,000 companies. Despite many studies using this technique, and referencing the works of the Uppsala School as their inspiration, the Uppsala School did not actually use this method. Instead, a small sample of four companies was used to form a series of case studies.

In terms of *geographic focus*, the majority of studies have tended to focus on developed countries. This is especially true of the USA. The most prominent developing country study is that of Wortzel & Wortzel (1981) where it was found that exporters there would be pulled and guided in international activities by their foreign customers because of limited managerial, marketing and other capabilities. Overall, the models tend to be single country/state oriented. By the use of some form of cross-national comparison, theory building would be assisted by showing effects under different demand conditions, government policies, and competitive environments.

The scope of *industrial coverage* is at best, limited. Few specific industrial sectors are considered and there is a general concentration on manufacturing (industrial rather than consumer products) rather than services which tend to be ignored because of “idiosyncratic patterns” (Leonidou *et al.* (1996)). Industrial cross-sectional analysis is scarce, although, as with cross-country analysis, it can aid theory-building by its elimination of industry-specific effects.

With the exception of the original works of the Uppsala School, the use of the SME as the *unit of analysis* is another prominent trend in the literature, where the SME’s path to internationalisation is considered more straightforward than that of larger firms. This is an arguable point. The essentially unique nature of these enterprises severely compromises this proposition. The other major problem in this area included again the lack of

standardisation of classification of the SME by size. Again this provides problems of comparison and duplication. The range of size factors used to classify the SME tended to be univariate in nature, creating further problems in comparison.

The *key informant(s)* used in the research tended to be CEOs or export managers. The studies assume one or two individuals control the decision-making process, another shortcoming of the stage literature. With the use of these key informants the research is compromised again by response bias, introducing a large amount of subjectivity into the research. This subjectivity can be overcome by in-depth case studies, as supported by Chetty's (1996) call for a greater reliance on the case study approach in research into the export development process in small firms. With a wider spread study within the organisation, elements of subjectivity can be overcome, as responses can be triangulated through a variety of documentation to help confirm or refute interviewee claims.

## **2.6 Main Findings of Stage Approaches**

The main findings from the stage models are basic. The fact that movement from stage to stage is dependent on a learning process, changes in managerial attitudes and a few firm characteristics has added little to theory building. This is since no real understanding of the movement from cause to effect, in a critical realist sense, has been forthcoming, compounded by a lack of appreciation of context (industrial or environmental). Table 3 shows the main findings of the stage models and their role in the overall process.

### **2.6.1 Facilitators**

**Managerial Characteristics:** The main findings in this area include the conclusion that the more cosmopolitan, multilingual, and educated the management force, the greater will be the involvement in international markets (Cavusgil 1982; Barrett & Wilkinson 1986; Dichtl *et al.*, 1990). Also considered important are technical skill, business competence, and planning orientation (Bilkey & Tesar 1977; Cavusgil 1982).

**Table 3: Factors influencing the Internationalisation of SMEs according to stage models**

	<b>Facilitators</b>	<b>Stimuli</b>	<b>Barriers</b>	<b>Market Selection</b>	<b>Modal Choice</b>
<b>Internal Factors</b>	International experience; International orientation; Technical skill; Competence; Product uniqueness; Technological intensiveness; Foreign market knowledge;	In later stages, stimuli are internal and strategic	Adverse managerial attitudes; Negative perceptions; Lack of financial resources;	Psychic distance;	Limited resources mean initial foray through representatives
<b>External Factors</b>		In early stages, stimuli are external. No specific reference is given to the specific factors.		Historical links; Communication links;	

**Management Style:** The style of management is believed to change as the firm progresses through the various stages. Initially management is disjointed, informal and unplanned because of inadequate company systems; systems that cannot cope with the rigours of export administration. The stage models believe that a gradual improvement occurs with the formalisation of export management systems, especially with the appointment of an export manager.

**Organisational determinants:** Here the main characteristics, which are believed to facilitate firm internationalisation, include product uniqueness, competitive pricing, and technological intensiveness. All of these factors have been shown to exist in firms at advanced stages of internationalisation. There has, however, been no significant evidence of any relationship between firm size and the degree of internationalisation.

**Organisational Resources:** In research concerning the development of organisational resources within the export evolution process, several factors were consistently found. In the early stages of export development there is a gradual increase in the commitment of resources (Forgsen 1989), in terms of financial capital, production equipment, employees, and managerial personnel (Welch & Luostarinen 1988; Beamish, Craig & McLellan 1993). In the later stages of export development, resource commitment is contingent on the situation.

### **2.6.2 Information Needs**

Clark, Pugh & Mallory (1997) suggest that the main influence on modal selection in the internationalisation process is information. They propose that this decision is rooted in both market specific knowledge and generic internationalisation knowledge. Leonidou *et al.* (1996) recognises that there are two types of information needed initially, experiential and general information. In higher stages of export development, this knowledge need becomes more objective and specific.

### **2.6.3 Stimuli and Barriers**

**Stimuli:** One of the main problems of the stage approaches is in their lack of investigation of stimuli to becoming involved in international markets. These stimulating “triggers” are extremely important, not only for policy-making, but also for deeper understanding of the processes because it is at this level that the future path of the firm is determined. The literature recognises that there are several influencing factors, but does not investigate these factors in much depth. In the main, reactive and externally related stimuli are



believed to influence the process. This is related to initial passive decision-making. In more advanced stages, proactive and internal stimuli are believed to be the main influences, related to a more proactive and strategic approach to the internationalisation process. This is essentially related to the acquisition of international experience. The main problem with this is the underlying philosophy of the stage approach, which is grounded in positivist assumptions. These assumptions assume growth maximisation, and, implicit in this, profit maximisation and a tendency for all firms to become “international” eventually. This is a misguidedly simplistic view of the firm and the decision-makers’ tendencies.

**Barriers:** Little attention has been paid to the existence of barriers between stages. Leonidou *et al.* (1996) notes that these barriers stem from the decision-makers’ attitude to internationalisation, structural barriers, and operational barriers. For new exporters, the barriers will mainly be related to transfer of funds, documentation procedures and market information acquisition. In later stages, greater attention will need to be paid to understanding foreign business practices, foreign production standards, and problems of facilitating financial arrangements. All these may, however, not be perceived in the same manner, or reacted to in the same way, even by firms on the same level. Differences in responses will depend on managerial, organisational and environmental forces acting on each firm. These are factors investigated in more depth by the network and behavioural models reviewed later.

#### ***2.6.4 Market Selection, Modal Selection and Expansion Choices***

**Market Selection:** By far the most important determinant of market selection cited in the stage literature is psychic distance. This concept is strongly criticised, however, for its eclecticism. The network and behavioural literature shows that there are several other factors at play. These include the influence of globalisation, lead markets, network links, the formation of regional trading blocks and the placing of *ad hoc* orders. Leonidou *et al.* (1996) sum up the influence of globalisation:

*“... increasing cultural homogeneity allows the novice in international business to enter foreign markets which are psychologically more distant.”(p.538)*

**Entry Mode:** The stage models assume limited resources at the onset of internationalisation. Therefore, the models in general propose the establishment chain theory as described above (indirect exporting, eventually leading to more direct methods). This incremental approach is however misleading as it precludes the firm’s ability to make strategic decisions in terms of de-internationalisation or moves towards more indirect

market servicing methods. Empirical evidence has shown that a combination of modes are actually used, and occasionally move in an inverse manner (Turnbull, 1987). This inverse movement may be especially prevalent in “hard markets”, where direct exporting is then handed over to agents with more market-specific knowledge and abilities.

Market Expansion: The expansion options open to the firm are two-fold, the firm can choose to concentrate its activities in one market, or diversify into several new markets. This decision is, however, time dependent. In the early stages of foreign market development, the firm will most likely limit its focus, preferring to leave diversification to the later stages in its development. There are several factors that will influence this: the increase in resources from international operations will allow a broader focus, market spreading will lead to risk minimisation, and problems will decrease as experience increases.

#### **2.6.5 Criticisms of the Stage Approach**

These stage models have come under increasing criticism for several reasons. The criticisms listed here are discussed below:

1. A Deterministic Philosophy
2. Unrealistic Assumptions
3. Deficiency of Deeper Causal Understanding
4. Unidirectional Nature
5. Ignorance of other Strategies
6. Stage Classification Problems
7. Methodological Shortcomings

##### **1. A Deterministic Philosophy**

By their use of a positivist framework, many stage model researchers ignore the contingency-approach from which many small firms can approach internationalisation. Their deterministic models set a path which companies are expected to follow. As Reid (1983) contends, the process is often unique to each enterprise and highly situation specific, a reflection of current circumstances and resource capabilities. As Anderson *et al.* (1996) have shown, “going international” is a less rational decision which is “situationally

determined” by opportunistic considerations, both emotional and circumstantial. As Young (1987) argues:

*“In an increasingly global environment, the relevance of stage theories must also be questioned.” (p.33)*

The above supports the call for a more holistic approach to the internationalisation process, because of the diverse background and motivations for exporting, identified by Bell *et al.* (1998), and by Leonidou *et al.* (1996) in their criticism of the positivist approach to international business. This is in addition to Kamath *et al.*'s (1987) claim that the current export literature is “bedevilled” by the dominance of a “logical empiricist methodology”.

Leonidou *et al.* (1996) notes that the stage approach is “too eclectic and mechanistic” and supports the need for dynamism. They reaffirm the need for the use of in-depth studies of firm/industry characteristics, to improve understanding of the causal processes of internationalisation, at a level below that of the observable. This approach is supported by Chetty & Hamilton (1996) and shown to be lacking in Turnbull's (1987) critique of “stage” theories. Anderson (1993), too, also observes that there is a lack of theoretical underpinning in stage models, and that there is little conversion between theory and practice.

Anderson (1993) casts further doubt on deterministic stage theories, and adds to the rationale for a contingent/holistic/network approach to internationalisation. He asserts that relationships in networks are developed very dynamically, in a less structured fashion, and that the building of mutual trust leads to a greater commitment between international actors. Therefore the process of internationalisation is not dependent on the firm as an autonomous body, but exogenous factors are also at work.

A further example of the deficiencies of this deterministic philosophy is shown by Bilkey & Tesar (1977) who as early as 1977 revealed that export activity was a learning, time-dependent process. Again, however, their reliance on six distinct stages, between lack of interest to committed interest in distant markets, reveals the usual shortcomings. This is where no explanation of the threshold levels of information needed to move between stages is given, nor is explanation of the possibility of backward movement. There is also the failure to take into account the exporting option as only one strategic choice available to the firm.

## 2. Unrealistic Assumptions

The unrealistic assumptions of the stage models, which are also due to its positivist background, cause many debates. The assumption of growth maximising (profit maximising) firms is one shortcoming of these models. The attitude, goals and lifestyle of the decision-maker(s), and the industrial context within which any decisions are made will all determine the overall strategy or goals of the firm. It is misleading to categorise firms in this deterministic way. We cannot apply models that are as fundamentally unrealistic as this to any dynamic process where a myriad of factors is involved in influencing any decision. The Network and Behavioural models reviewed below are testament to this. The process of internationalisation will not rest on the fact that growth is desirable because it can lead to greater profits. Even if it did, several other factors would also contribute to the path taken. These influences include the state of the local economic environment, the perception of international markets by the decision-makers, the type of industrial environment, the character of the firm, the relevance of any internationalisation barriers, the importance of networks, and even the level of after-sales service required.

## 3. Deficiency of Deeper Causal Understanding

The stage literature is concerned more with content, in other words the direct correlates of export performance, where the key word would be “static” and “univariate” (Chetty & Hamilton, 1996). There are causes and effects here that these approaches attribute to observable events. However, advances need to be made on the front of explanation building to understand causal process and stimulating factors in greater depth, that which lies at a deeper level. This and further issues are investigated in the next section. As above, the problem here is that the need for the identification of a trigger to internationalise is obscured by the assumption that all firms want to internationalise because they are growth maximisers. This tells us nothing about the context within which any decisions are made and nothing about the cause of any subsequent action. Because the decision to internationalise is given, we are offered no idea as to how to encourage small firms into the international arena. This is a major problem for understanding any future action by the firm. If we do not have a full picture as to the motivations, may they be personal or competition related, we will fail to understand any subsequent expansion or contraction in the international marketplace. “Why?” and “how?” questions need to be answered in order to understand the role of structure and the contingent environment, both internal and external to the firm, and which lie at a level below that of surface phenomena.

#### 4. Uni-directional Nature.

The stage approach that is used is uni-directional, blurring the “real” picture, where stasis/inertia is possible, as well as forward or backward movement along stages. This is another shortcoming that stems from the original philosophical framework. We are led to assume that forward movement will always take place, as growth is desirable. This point illustrates the importance of utilising an appropriate theoretical framework for the study of these organisations. Any problems inherent in the framework used will undoubtedly display themselves in the findings of any such works. Turnbull (1987) exposes this problem with his empirical validation of inverse movement, where direct exporters have relinquished control in foreign markets back to agents/distributors.

#### 5. Ignorance of Other Strategies.

The distinct stages used in these works also pay scant attention to the other expansion/growth opportunities presented to the firm. One of the main problems inherent in this literature is its preoccupation with exporting. No alternative strategic options appear open to the firms involved, such as domestic expansion, sourcing agreements, product development, diversification; it also ignores other underlying processes at work in the small firm including the influence of lead markets (Bell, 1995).

#### 6. Stage Classification Problems.

The classification into stages of the firms used in the above studies ranges from variables based on export sales intensity to length of export experience, entry mode used, number of foreign markets, and number of foreign customers. These methods of classification have several shortcomings. Their univariate nature opens them to misinterpretation. Because of the nature of a firm’s product, or the nature of the industry it is in, a firm may have several foreign customers in one foreign market. In the context of these models, a firm may be classified in one model as intensive exporters, but in another model as simply casual exporters because they only export to one market. There are problems too with the use of export/sales intensity. For example, a firm with a high export/sales ratio may be considered a high exporter, but this may simply be due to low domestic sales in a particular year and they are in fact quite inexperienced exporters. Misinterpretations may also exist if, in an industrial context, all firms will need to export due to domestic market limitations. This shows the need for greater understanding of context, both industrial and organisational.

## 7. Methodological Shortcomings

The main methodological shortcomings of the stage models investigated include the following:

- Lack of longitudinal investigation: this is especially important as it is a time-dependent process being studied
- There is a lack of geographical scope, inhibiting theory-building by not analysing the process under different economic and structural environments
- The concentration on manufacturing (although there is some service sector literature (Erramilli & D'Souza, 1993)) and little industrial scope within this again inhibits theory building as above
- The role of customers and their views are ignored
- Univariate analytical methods and statistical tools are used that are inappropriate for identifying cause-effect relationships at a level below that of the observable.

### 2.6.6 *Summation of Criticisms*

Turnbull (1987) sums up the usefulness of the stage approach stating, "... *the stage theory has its merits as a framework for classification purposes rather than for an understanding of the internationalisation process.*" (p.183).

From the non-exhaustive, but long list of directions in stage modelling noted above, it is clear that there is no consistent approach to internationalisation by researchers or by organisations themselves. What has been modelled is often too deterministic, and not enough consideration has been given to context of industry, organisation, and decision-makers, in their influence on the internationalisation process (Buckley *et al.*, 1979; Reid, 1983). This is a criticism supported by the results of work by Chetty & Hamilton (1996), where different responses to identical stimuli in similar firms was seen. This is illustrated in New Zealand where government regulations on exchange controls affected all firms, but only certain firms, due to management perceptions, became involved in the export market. What is being said here is that all firms are different, and cross-sectional positivist research does not reflect these differing characteristics.

This lack of understanding of context is a failing of stage models, consistent throughout more recent research, and stimulates the call for a more holistic, contingency-based, approach to the study of SME internationalisation (Bell *et al.*, 1998). This is coupled with

the realisation that the process is “*more complex and less structured*” than previous theories have shown (Anderson, 1993).

Given these issues, contemporary research has attempted to overcome these shortcomings by the use of methods and frameworks that provide greater insight into this establishment-specific process of internationalisation. This is especially seen in the Network and Behavioural Models discussed below.

## **2.7 Net work and Behavioural Models**

### **2.7.1 Background**

*“It is evident.... that a major limitation of all ‘stage’ theories is in their use of linear models to try to explain complex, dynamic, interactive and frequently non-linear behaviour.” (Bell, 1995, p.71)*

As a challenge to deterministic stage theories, research has expanded to incorporate a more contingency-based approach in an attempt to answer the more important “how” and “why” questions. Recognition of the contingency aspect of internationalisation arose as early as the late 1970s with Buckley *et al.* (1979). They recognised that the process may not be as consistent as the stage approaches contend. Despite the Uppsala School noting an important caveat that the skipping of stages may occur, they offer no conceptualisation of backward movement. This is a point noted by Cannon & Willis (1981) in their critique of stage theories and voiced by Welch & Luostarinen (1988):

*“... it should be stressed that once a company has embarked on the process, there is no inevitability about its continuance. In fact the evidence indicates that reverse of ‘de-internationalisation’ can occur at any stage.”(p.37)*

Since the proliferation of stage research in the 1970s, researchers have sought to advance theory by incorporating a more contextual basis to the internationalisation of the firm. By the use of a contingency framework and network and behavioural models, researchers have sought to understand the fundamental cause-effect relationships in greater depth than seen in earlier internationalisation works. This is especially seen with greater investigation of the role of triggers and facilitators of internationalisation.

Contemporary researchers have realised that there is a myriad of factors influencing the process. Although it is still recognised that the stage approach is a valid generalisation of the process, it is considered unrealistic because of a lack of dynamism and an ignorance of

feedback effects. The lack of contextual understanding needs addressing and it is through the frameworks described below that theory can be advanced.

The motivation for these types of studies into internationalisation, which has concentrated on SMEs from a behavioural and network point of view, springs from the observations of several researchers. This includes O'Farrell *et al.* (1998) who claim that research in the internationalisation field has tended to concentrate on manufacturing firms (generally larger) and large American service firms. Carrier (1994) suggests that there are inherent differences between these two organisational forms (SMEs and large firms), yet the process of internationalisation has been dominated by studies with methodologies based on studies of larger firms. This led to Vante's (1995) observation that:

*"SMEs, ... have many distinct characteristics unique to this type of enterprise and at the same time are highly dynamic newcomers in export markets. We cannot uncritically use theories or analytical frameworks developed for large firms to understand the internationalisation of small firms."* (p.67)

And:

*"... large firms and SMEs are worlds apart in terms of structure and decision-making. If we take a closer look at these two very different worlds, one more formalised and the other more dynamic and adaptable, it becomes less surprising to find that SMEs are often perceived as much more fertile than larger firms..."* (Carrier, 1994, p.55)

A further motive is the increasing importance of the SME in the international market with the rise in the use of co-operative strategies for SMEs (Berra *et al.*, 1995), and the inability of such widely accepted theories such as Dunning's Eclectic Theory (1977) to deal with this (O'Farrell *et al.*, 1998). O'Farrell *et al.* (1998) argues that the eclectic theory does not recognise institutional arrangements other than markets and hierarchies, hence it is lacking in contextual content. For example, the role of networks is ignored, and instead the entry decision is focussed on in isolation. Despite the Uppsala model recognising that learning (knowledge acquisition) is important, other internal and external factors have been largely ignored. The argument for a more holistic perspective is given below.

Further study of the SME's foreign market activity is needed because they operate within a tighter structure than larger companies and the entrepreneur as individual will play a more important role. Therefore, the relationship between ownership and control differs from



that of large firms (Smallbone *et al.*, 1996). As Reuber & Fischer (1997) suggest (see also Chandler & Hanks (1994); Fesser & Willard (1990); Mintzberg (1988)):

*“... correspondence between top management experience and organisational outcomes is expected to be even more pronounced in SMEs, since these businesses reflect the dominant role of the founding team to a greater extent.” (p.809).*

These inherent differences are also noted by Chetty & Hamilton (1996), who explain their choice of the SME as their unit of study by asserting that the management attitudes and processes involved, which lead to differences in performance, are more pronounced or obvious within these organisations.

Further, little in-depth research has been done for SMEs into the character of and responses to the Single Market (Smallbone *et al.*, 1996) and the growing importance of international operations (Berra *et al.*, 1995). The literature also provides little understanding of causation or process, especially with the reliance on cross-sectional surveys in the development of “stage theories”.

The structure of the rest of the review is as follows. The following section discusses the main theoretical issues that have evolved in the behavioural literature. This will deal mainly with arguments relating to the shortcomings of the positivist “stage” theories that stem from the work of the Uppsala School. Subsequently, methodological issues will be examined. This will be followed by an analysis of the main findings in the behavioural and network literature.

### ***2.7.2 Theoretical Framework for Behavioural & Network Models***

Recent behavioural and network studies on the internationalisation of SMEs, rather than considering deterministic stage theories, have developed a more robust theoretical background, where the main belief underlying the bulk of this research is that the SME is an heterogeneous economic organisation (Cafferata & Mensi, 1995; Smallbone *et al.*, 1996).

It is widely realised that the processes involved are highly dynamic and time-dependent. Studies concerned with the time difference between start-up and initial international activity and critiques of the lack of analysis of the time between stages acknowledge the importance of time (Reuber & Fischer, 1997). The various theoretical approaches used are discussed below.

**Contingency Theory:** decisions are made in relation to the context of industry, firm and country factors, not to “hard and fast” rules, as the importance of the myriad of factors at play in the system is recognised.

**Network Theory:** interpreted here the role of networks in the facilitating of internationalisation as the factor of prime importance. The firm develops into the international market because of its connected relationships, which develop in a non-deterministic fashion.

**Behavioural Theories:** centred on the individual actors as the important facilitator of the process.

**Internalisation/Transaction Cost Theory:** a transaction will take place only if the cost of undertaking the activity is less than the benefit accrued from it. Costs here, however, can be interpreted as perceived costs and not necessarily resource allocations.

Bell *et al.* (1998), along with Rider (1997), note that the internalisation/transaction cost approach may provide a more acceptable model than previous deterministic models. They, however, still criticise the use of this approach. McDougall *et al.* (1994) support this thought that costs are not the basis of decisions and internalisation is not based on any quantifiable cost/benefit relationship. Support is given by Rider (1997) for the behavioural/network approach, where the transaction cost approach is deemed inadequate because of its ignorance of non-economic, quasi-rational issues, and intra-organisational issues which are crucial in the internationalisation process, especially in the area of strategic alliances. Rider (1997) also asserts, in support of a move towards a more firm-specific orientation in research, that:

*“... firm size cannot be used rigorously as a proxy for limited resources without carefully examining the total environmental and behavioural context in which it is so used, because assumptions are usually built into that concept which are unacceptably often not valid.”* (p. 360).

The new tide of paradigmatic change has led to an increase in the attention being paid to network theory’s relationship to internationalisation (Bell *et al.*, 1998). This is supported by Coviello & Munro’s (1997) observation that:

*“... we are better able to understand the internationalisation process of small firms by expanding our research focus to integrate the models of incremental internationalisation with the network perspective.”* (p. 129)

This has been accompanied by an increase in interest in “contingency” approaches to internationalisation. Because of the myriad of factors now recognised as influencing the process, this is deemed necessary, especially when SMEs are assumed to take a more contingent-based approach than larger firms (Julien & Marchenay, 1992). Bell *et al.* (1998) recommend that under different circumstances, researchers should choose between behaviouralist (process and network) models and internalisation models. This is especially important when intangible gains (image, emotion) are thought to take precedence over quantifiable gains in internalising activities, leading to a need for a greater understanding of the subjective perceptions of actors, where growth for image reasons has been shown to be important (Anderson, 1993).

This debate between researchers is due to the lack of dynamism in investigations. Internationalisation may follow a dynamic path, but until recently there has been no appropriate framework for its study. Many studies support the dynamic nature of these organisations, but lack a dynamic theoretical background and hence arrive at static conclusions. Steps to advance theory have, however, been taken.

Bell *et al.*'s (1998) holistic approach proposes that the internationalisation decision is made with reference to products, markets, and entry modes. This is an idea based on observations initially from Luostarinen (1979), which is subsequently supported by Kumar & Subramaniam's (1997) claim that not enough attention is given to the interdependence of decisions, especially between market selection and entry mode.

O'Farrell *et al.* (1998) stresses the importance of understanding context within which decisions are made. The important elements in understanding this process will depend on understanding its dynamic and *ad hoc* nature, including the part the process plays in restructuring, and the formation of corporate relationships.

With this in mind, moves forward have occurred with the assertion that SMEs are heterogeneous organisations, and that they will be affected by “shocks” to different degrees, depending on the role they play in the economy. Smallbone *et al.* (1996) show this in their study of the effect of the EU on the internationalisation of the UK food-processing sector. Depending on the market sphere of the firm (be it local, regional, national or already international) it will be affected to differing degrees by an external shock, such as the formation of the EU. Despite this recognition, Smallbone *et al.* (1996) still focus their research on the short-run direct effects of the EU, ignoring the long run dynamic effects, and clouding any heterogeneous action that may occur by their use of a

cross-sectional analysis. If a longitudinal analysis was used, a clearer picture of heterogeneous behaviour may have been seen. This again shows the lack of conversion between the theoretical base Smallbone *et al.* (1996) support and the methodology they practice, a criticism also noted by Turnbull (1987).

Berra *et al.*'s (1995) appreciation of dynamism of the economy in their study of the Italian fashion industry shows that they recognise that change in the industry will have a dynamic impact on firms (this is from the 1980s when product differentiation was important, there was a shift to the high fashion sector, and decentralisation, deverticalisation, and the international relocation of production were also all at work). They also recognised the importance of social and political factors on the internationalisation of SMEs, with political influences leading to co-operative behaviour, providing a suitable infrastructure for internationalisation. They, however, used trends in the economy and the industry (by the use of aggregated secondary data) to try to understand the internationalisation process. This is accompanied by the use of static statistical analysis and cross-sectional samples where a longitudinal study would have been more appropriate.

The greatest advance in this research arena has undoubtedly come from the works of Chetty & Hamilton (1996), and Bell's and other various contributions that try to establish whether the internationalisation process is deterministic (incremental) or not (Bell *et al.*, 1998; Coviello & Munro, 1997).

Chetty & Hamilton (1996) represent the exporting process in its most realistic guise, as a non-static, interactive process, as depicted by Figure 3. The interplay between the inputs of firm competencies, the economic and commercial environment, firm character, and export strategy and the output of export performance lends itself a great deal to theory-building by representing the myriad of effects on the firm. The lack of a current strong theory in the literature can only take these effects on the firm and model its reaction in a fashion akin to "Black Box" theories, where firm reaction is indeterminable from the various stimuli and characteristics of its surroundings.

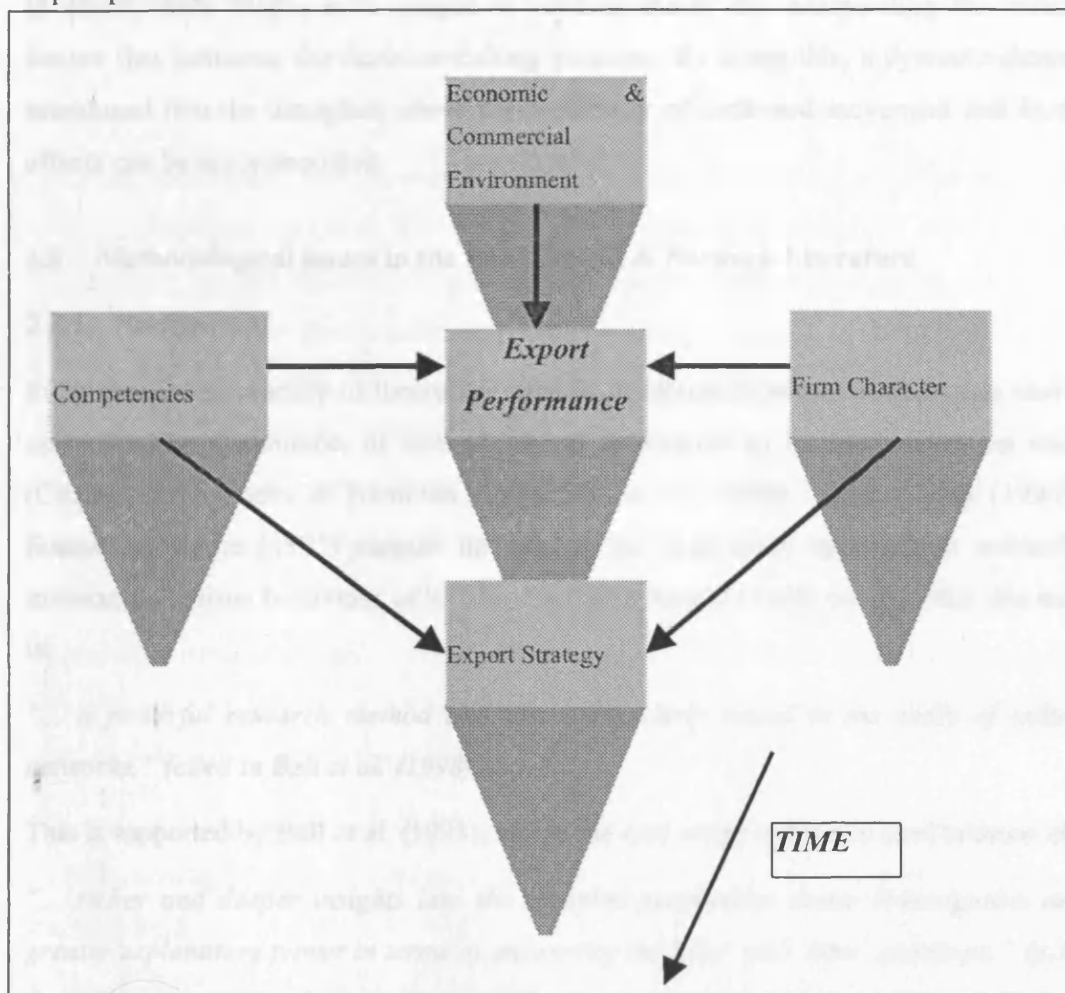
By the use of a critical realist approach the present research will provide deeper understanding of the causal influences of structure, in conjunction with the prevailing contingent environment.

Other dynamic internationalisation studies have been based on experiential knowledge of managers and management teams. This has led to calls: to model the management influence as indirect (as it will be influenced by intervening variables that are also

important); for greater research into the effects of knowledge, skills, abilities, which have been acquired experientially (and thus have consequences for behaviour); and for research into the relationship between top managers' geocentric attitudes and direction of causality (or whether mutually causal) (Reuber & Fischer, 1997). These all introduce a greater element of dynamism into what has often been a static research arena.

**Figure 3: Diagrammatic Representation of Chetty & Hamilton’s (1997) Model**

The 3-dimensional aspect of the figure demonstrates the time-effect of these variables on export performance.



Economic & Commercial Environment	Firm Characteristics	Competencies	Export Strategy
Exchange Rates	Firm Size	Technology	Market Selection
Level of Domestic Demand	Management Commitment	Market Knowledge	Product Mix
Incentives for Exporting	Profit Perception	Planning & Analysis	Pricing

Adapted from Chetty & Hamilton (1997)

Reuber & Fischer (1997) also present another interesting point, following criticisms of linear modelling of foreign experience. The use of length of foreign experience, a linear variable, is not necessarily appropriate in this field. They assert that regardless of the length of foreign experience, any knowledge gained from this will be “consequential”. In other words, they believe knowledge of international markets is instantaneous. This may be because any foreign experience will make the individual aware of its existence and

hence make them a greater facilitator of international activity no matter what the length of experience.

In effect, these studies have sought to advance theory by incorporating the variety of factors that influence the decision-making process. By doing this, a dynamic element is introduced into the discipline where the possibility of backward movement and feedback effects can be accommodated.

## **2.8 Methodological Issues in the Behavioural & Network Literature**

### **2.8.1 Background**

In addition to the variety of theoretical models of internationalisation, there has also been an increase in the number of methodological approaches to internationalisation research (Chetty, 1996; Chetty & Hamilton, 1996; Bell *et al.*, 1998). Both Chetty (1996) and Easton & Araujo (1995) support the use of the case study approach to research the internationalisation behaviour of SMEs. Easton & Araujo (1995) contend that this method is:

*“... a powerful research method and one particularly suited to the study of industrial networks.” (cited in Bell et al. (1998), p.12).*

This is supported by Bell *et al.* (1998), where the case study method is used because of:

*“... richer and deeper insights into the complex phenomena under investigation and its greater explanatory power in terms of answering the ‘why’ and ‘how’ questions.” (p.12).*

The case study approach enables an understanding of the deeper processes at work and avoids the respondent bias problem inherent in survey research by the ability to triangulate and confirm the validity of responses using multiple sources of documentary and interview evidence.

Other issues of concern in the methodological area arise from the arbitrary segmentation of firms into their different stages, the variety of explanatory variables used to explain the process and the various fieldwork methods used, which are discussed below.

### **2.8.2 Segmentation Criteria**

The segmentation of firms into stages in the literature is varied and unstandardised, leading to significant difficulties in comparison. The classification of firms into their various stages of export development range from measures of export-sales intensity to length of export experience, number of foreign markets served and number of foreign customers.

However, these classification measures have a number of drawbacks, beyond those related to their non-standardisation. With the limited number of segmentation criteria used, the full picture, the individualistic nature of each firm, is not fully exposed. Despite the assertion that greater involvement in export markets is part of a learning process, and therefore time-dependent, the pace of learning will be different for each firm and will be dependent on attitudes to foreign markets, education of decision-makers, and previous foreign experience (O'Farrell *et al.*, 1998). To use such measures as length of export experience as a measure of classification of firms therefore clouds this crucial dimension.

Another failing of these measures is their static nature and their application to what is essentially a dynamic process. As mentioned above, the ability of these measures to move up or down compromises their validity. Perhaps a multivariate segmentation criterion would better serve the purpose of classification.

The use of arbitrary or undefined cut-off points and unclear boundary delineation also prohibit standardisation of measures and introduce compromising subjectivity into the research field.

The most significant problem for standardisation of internationalisation of SME research is at the most fundamental level, the definition of an SME. Most definitions are based on the number of employees. This, in itself, is an inadequate definition across industries because of the differences that will exist in capital and labour inputs required. The vast range in size definitions is clearly seen with less than 1000 employees being used in the study of South African SME internationalisation (Journal of Small Business Management, 1995) to less than 200 employees used by O'Farrell *et al.* (1998), Reuber and Fischer (1997), and Bell *et al.* (1998). In between these values, are the less than 500 employees used by Anderson *et al.* (1996) and Smallbone *et al.* (1996). The current study uses the EU definition of an SME (less than 250 employees, less than £32 million turnover, and less than 25% owned by a larger enterprise (European Commission, 1996)). Many of the other studies reviewed do not give an explicit definition of the term SME, leading to further confusion over replication, transparency and rigour.



### **2.8.3 Methodological Characteristics**

The most important aspects in this part of the research concern:

- fieldwork time
- fieldwork style
- geographic focus
- industrial orientation
- firm size
- unit of analysis
- sample character
- data collection techniques
- key informant
- statistical analysis used

In consideration of *fieldwork time*, the majority of studies opted for a cross-sectional analysis. The problems with this approach have been discussed above.

The variety of *fieldwork styles* used includes, in the more recent studies, a reliance on in-depth understanding of few companies. This is in contrast to the previous “stage” theories with large sample sizes and little consideration of outliers, a trend followed by Berra *et al.* (1995) who use a secondary database of Italian clothing firms, a database formed from newspapers, financial reports, and regional research reports. The case study approach is seen most prominently in the work of Chetty (1996) and Bell *et al.* (1998). Smallbone *et al.* (1996) rely on interviews with key industrial informants to attain an “insider’s” perspective on the industry being studied and cement conclusions by their survey of the SME managers themselves. Bell (1995), Chetty & Hamilton (1996) and Reuber & Fischer (1997) rely on in-depth interviews with key decision-makers, however Chetty & Hamilton’s work appears more informative and unbiased with their use of structured and open-ended questions with at least two interviewees per company. Reuber & Fischer (1997) only interviewed the founding partner.

The case study approach, with its use of in-depth interviews and archival information, as used by Bell *et al.* (1998) and Chetty (1996), rely on randomly selected companies. This random selection is based firmly on their desire to extend theory, and as they assert,

“extreme” examples help do this. By randomly selecting companies, the study includes the average and the extreme, rather than ignoring the latter. Bell *et al.* (1998) criticise earlier work (including Bell’s (1995) earlier cross-national survey) in their support of the case study approach, which includes the observations that there is general reluctance by SME managers to complete postal questionnaires, the general lack of published information on SMEs, and the poor recording of internal data.

In terms of *geographic focus*, the majority of studies have tended to focus on developed countries as noted above. This is especially true of the USA and recently there has been an increase in studies from New Zealand (Chetty (1996) and Bell (1995)) and the UK (Bell *et al.*, 1998).

The models tend to be single country/state oriented (UK- Smallbone *et al.*, 1996 and O’Farrell *et al.*, 1998; Canada- Reuber & Fischer, 1997; Italy- Berra *et al.*, 1995; Germany- Dichtl *et al.*, 1990). By the use of some form of cross-national comparison, theory building would be assisted by showing effects under different demand conditions, government policies, and competitive environments. Cross-national comparisons have only recently been done, especially in the work of Bell (1995) (Finland, Ireland, Norway) and “cross-regionally” in his study of England, Scotland and Northern Ireland (Bell *et al.*, 1998).

The scope of *industrial coverage* by the stage models above was limited. Inter-industry analysis is scarce, although, as with cross-country analysis, it can aid theory building by its elimination of industry-specific effects and has the potential to refute the oft-referenced, deterministic, “stage” theories.

The single industry/sector studies reviewed included the UK food processing sector (Smallbone *et al.*, 1996), the Canadian computer software industry (Reuber & Fischer, 1997), and the Italian clothing industry (Berra *et al.*, 1995). O’Farrell *et al.* (1998) concentrate on the service sector, and theirs is one of the few studies that conducts an inter-industry study. The industries included engineering consultancy, management consultancy, market research, computer software, and product design, chosen because of differences in technological levels, standardisation required and level of customer interaction needed. This is the sort of study needed as it is these inherent differences that facilitate theory building (Chetty, 1996).

Two industry/sector models are the trend from the “New Zealand School”. Chetty and Hamilton (1996) and Chetty (1996) use two dissimilar industries, timber processing and

electrical industrial machinery (dissimilar in terms of level of technology used and capital/labour requirements), enabling comparison between and within industries. These industries were chosen due to the ease with which SMEs can enter, and the potential each industry has for expansion.

Bell *et al.*'s (1998) two-sector model continues this trend by its study of the high and low technology sectors. The sectors show inherent differences as with the previous New Zealand studies due to the differing pace of internationalisation, but similarities in age and turnover. These idiosyncrasies have greater potential for theory building, unlike previous single industry/sector studies.

The use of the SME as the *unit of analysis* is another prominent trend in the literature as discussed above, chosen because the SME internationalisation path is considered more straightforward and in the case of the New Zealand School, chosen because of their importance to the New Zealand economy.

The *key informant(s)* used in the research tended to be CEOs or export managers, sometimes both (Bell *et al.*, 1998). Only one study, Reuber & Fischer (1997) used the entire management team as the important decision-making unit. The other studies assume the decision-making process is controlled by one or two individuals (Smallbone *et al.*, 1996; Chetty & Hamilton, 1996; Bell, 1995), another shortcoming in the literature. With the use of these key informants the research is compromised again by response bias, introducing an element of subjectivity into the research. This subjectivity can be overcome by in-depth case studies. Support for this is given by Chetty's (1996) advocating a greater reliance on the case study approach. With a wider spread study within the organisation, elements of subjectivity can be overcome by the use of triangulation as explained above.

*Methods of analysis* again prove inadequate for the results sought as causality is inferred from only analysing 'surface' appearances. With a reliance on statistical analysis, no attempt is made to understand cause-effect relationships apart from more recent narrative works from the "New Zealand School". The main modes used included regression analysis, analysis of variance (ANOVA), multiple discriminant analysis, and Chi-squared tables. Few studies have relied on qualitative data analysis. However, where these methods have been used, researchers have found reliance on manual methods (construction of tables/matrices to identify patterns visually) more appropriate than computer programmes established for such purposes (Chetty, 1996), perhaps explaining their underutilisation.

## **2.9 Main Findings from Network and Behavioural Models**

The main findings in the current research theme can be categorised into:

- facilitating factors
- stimulating factors and barriers
- information needs
- market selection, modal choice and marketing expansion strategies

These factors, overall, provide a more in-depth understanding of the process than do stage theories alone. It is recognised here that there are indeed several factors that influence the process, in both a direct and indirect fashion. The stage theories above were in the main concerned with the *direct* correlates of the process. The findings here not only seek these direct correlates but also an understanding of “triggering cues”, barriers, and facilitators of the entire process.

Managerial characteristics have been used by relating the level of international experience of the team to the level of internationalisation (Reuber & Fisher, 1997; Meisenbock, 1988; Reid, 1981). The variables used to define “experience” include the level of foreign travel, and number of languages spoken.

Organisational characteristics used have included the importance of technological awareness in the internationalisation process (Chetty & Hamilton, 1996), the contribution of networks to the initial export decision process, and awareness of government export services (Bell, 1995). The organisational characteristics found not to be important in determining the level of internationalisation were age and size (Calof, 1994; Reuber & Fischer, 1997).

The domestic competitive situation has been proposed as one of the most important factors determining SME internationalisation, leading to motivations which are either offensive, defensive, reactive or proactive (Cafferata & Mensi, 1995). The main results of these investigations are discussed later.

### **2.9.1 Facilitating Factors**

Included here are those studies based on the factors that facilitate export market involvement, these are network relationships, the formation of the EU, the international experience of the management team, managerial resources, the state of the domestic

market, and product/ process innovation. These factors are on the whole latent, until stimulated by some triggering mechanism, as described below.

Dichtl *et al.* (1990) refer to these firm-specific facilitating factors as the determinants of export potential and use three main categories for their identification: demographic factors (age, education); personality (rigidity, risk aversion); firm characteristics (sales, utilisation of capacity). These factors are expanded on below.

The importance of *managerial characteristics* in facilitating overseas expansion is one of the most often cited factors in the literature, originally recognised by the Uppsala School. Calof and Beamish (1995) consider the attitude of management to be the main determinant of internationalisation. These frequent mentions of managerial characteristics range from studies dedicated to them (Cavusgil 1982) to studies that give only cursory mention of their importance (Berra *et al.*, 1995). The main findings in this area include the conclusion that:

*“Internationally experienced management teams have a greater propensity to develop foreign strategic partners and to delay less in obtaining foreign sales after start-up.”*  
(Reuber & Fischer, 1997, p.807)

*“...greater exposure to the international environment .....more likely to be receptive to stimuli and outward business activities.”* (Bell *et al.*, 1998, p.21)

Despite this firm-based insight, and an advance on previous studies that ignore firm level determinants, the cause-effect relationships involved are not investigated in depth.

One of the most important areas that have been investigated is the *organisational characteristics* that increase the propensity of firms to become involved in export markets. Product uniqueness, competitive pricing, and technological intensiveness have all been found to have a high correlation with more advanced stages of the export development process. Innovation (product and process) (Bell *et al.*, 1998), the tradability of the product (O’Farrell *et al.*, 1998) and quality control (Chetty, 1996) are all also shown to assist in initiation of overseas expansion. Production, marketing, and distribution efficiency, however, showed no major variations between stages. On the subject of the relationship between firm size and exporting behaviour, no significant relationship has been found, although a very limited association is proposed (Bonaccorsi 1992; Calof 1994; Bell, 1995). Although the subject of firm size and its relationship to export performance, modal choice and intensity has long been an obsession in the literature (Hirsch & Adar 1974; Reid 1982; Calof 1993), recent results have led to recommendations to minimise the attention given to

it because of the lack of evidence of any significant relationships (Calof 1994). Resources can be better allocated to other elements of the internationalisation research arena, especially in the areas of theory building and identification of appropriate methodological approaches.

The importance of networks to the international evolution of the company has only recently received attention (Chetty, 1996). The causal relationship is, however, unclear, where networks can be interpreted as a means to overcome the lack of competencies (Chetty & Hamilton, 1996) rather than as a catalyst for internationalisation in itself (Bell *et al.*, 1998). Smallbone *et al.* (1996) propose that the relationship is an indirect one, where, they assert, the actions of customers will influence, not wholly cause, internationalisation. Bell (1995) claims that initiation can be made through contact with foreign suppliers while Day (1995) states that once this initial contact is made, commitment, trust, good organisational learning and the ability to evolve relationships rapidly are the main determinants of a successful international venture.

The proposal that the EU will facilitate greater free trade is one of the reasons for its existence. Its effect on SMEs is less clear or researched. Bell *et al.* (1998) and O'Farrell *et al.* (1998) propose that the EU will increase awareness of international markets. Smallbone *et al.* (1996) showed the effect of this. In their study of the UK food processing sector they showed that two-thirds of the companies they investigated had an active response to the Single Market. The responses included changes in price strategy, product quality, and service quality.

Chetty & Hamilton (1996) propose the most important facilitating factor as follows:

*"A secure domestic market position underpins the entire process by providing the financial and managerial base from which export strategies are launched and have to be maintained."*

The contribution of the domestic market to the internationalisation process is, however, hotly debated. Whether it acts as a push to internationalise, or as only a facilitator of the process is at the root of the debate. This question is examined in detail in the next section.

### **2.9.2 Stimulating Factors and Barriers**

The consensus in the literature on the role of stimuli is that several “triggering cues” initiate internationalisation (Leonidou *et al.*, 1996). These factors are investigated in greater depth in more recent research.

*Stimulating factors* can be categorised into either push or pull. Push factors include a desire to reach distribution and commercial economies of scale (Berra *et al.*, 1995), previous foreign experience (Anderson *et al.*, 1996), and domestic market conditions. Bell (1995) states that a small domestic market will lead the firm into exporting, while Berra *et al.* (1995) show that with the traditional SME strongpoint of non-price competitiveness (quality, image, flexibility, dynamism) now weaker, they are pushed into international activity to overcome these difficulties (see also Anderson *et al.*, 1996). Bell *et al.* (1998) also show, in their study of the difference between high technology and low technology firms’ reactions, that it is **not** due to limitations of the market for low technology firms (i.e. market size is not important), but the prevalence of adverse conditions. These adverse conditions act as a catalyst to internationalisation, where in some cases a “near death” experience is needed to instigate internationalisation. In consideration of the high technology sector, they show that this “push” abroad is especially seen in niche market firms, and is due to limitations in the domestic market. Where growth is restricted, a more proactive approach is needed, and investment cannot be justified without it. This is a factor strongly contradicted by the work of Chetty & Hamilton (1996). They assert that a strong domestic market is important for creating the export imperative.

In terms of firms being pulled abroad, *ad hoc* orders and perceptions of profitability are the two main areas to attract researchers’ attention. Smallbone *et al.* (1996) use the term “opportunistic” in describing the initial steps into the international arena by small firms, Bell *et al.* (1998) use unsolicited orders to explain low technology firms’ move into export markets, and Dichtl *et al.* (1990) use the term “externally induced stimuli”. Despite the variation in terminology, comments on the *ad hoc* nature of the process appear consistently throughout the literature.

Perception of risk, uncertainty, and sales expectations are all important areas for investigation (Prasad, 1997). Perceptions of international markets and the subjectively based perception of profits have both been shown as important. Chetty & Hamilton (1996) provide an excellent narrative of the process, where differential responses to the same stimuli are shown, due to different perceptions of profit. Using results from their case

studies, perceptions of export profitability were shown as a major stimulus in the exporting process. Owing to a highly competitive domestic market, one respondent assumed the export market must be more profitable, a perception informed by the experiences of other successful operators.

The respondent, in order to attain the necessary competencies, achieved ISO standards (despite old machinery) and used what scarce resources they had to explore various international market opportunities. The results of this narrative reaffirm the benefits that the case study approach has for theory building (Chetty, 1996). Chetty & Hamilton's (1996) use of the case study approach enabled them to identify the main process elements, while allowing for backward or forward movement. This is an area not investigated by the main stage models. Chetty & Hamilton (1996) state that perception of export markets fuels strategic intent, which leads to a defining of minimum competencies (market knowledge, quality standards, technological sophistication), market selection, and then the details of export strategy (price, promotion, intermediaries). They allow for deinternationalisation with the observation that if the first exporting venture, which is usually in small shipments, is unsuccessful, it leads to negative perceptions and perhaps exit from the international marketplace.

In their provision of even more important insights, Chetty & Hamilton (1996) demonstrate how, even though provided with the same stimuli (changes in the condition of the domestic market and government policy), two not dissimilar firms can respond in different ways. The case study shows a non-exporting firm, with the same lack of competencies as the other firm, preferring diversification into other localised industries, rather than the other strategic option of internationalisation. The basis for this decision was the **perception** that export markets were too risky. This is an important area for future investigation and is highlighted by case study research.

**Barriers** to international market involvement stem from three main areas- attitudes to internationalisation (from previous experience or lack of it), barriers within the company structure (family firms having less tendency to export (Smallbone *et al.*, 1996)), and operational barriers (problems of fund transfers, documentation procedures, and information acquisition).

Once these initial barriers are overcome, firms tend to become more concerned with understanding foreign business practice, foreign production standards and facilitation of financial arrangements. A crucial insight of the literature is that firms may not perceive or



react against these barriers in the same way, even firms at the same level (Chetty & Hamilton, 1996). These differences in responses are believed to be dependent on the managerial, organisational and environmental forces acting on each firm (Leonidou & Katsikeas 1996), akin to the structural and contingent factors proposed to be important in critical realism (see Chapter 3).

Dichtl *et al.* (1990) presents a list of managerial characteristics that are barriers to the internationalisation process. They propose that the firm will be less likely to export if managers:

- have a large psychic distance
- are older
- have a lower education level
- have low foreign language proficiency
- are less travelled
- are risk averse and rigid
- have a negative perception of the effect of foreign work on family life
- overall have a negative attitude to exporting as a possible company strategy.

Barriers due to company structure include the lack of financial resources because of size, an arbitrarily quoted factor (Berra *et al.*, 1995) that is contested by Rider (1996) above. The other two important barriers are age and ownership details. Reuber and Fischer (1997) established, from their study of the importance of managerial characteristics, that older firms delayed longer in “going international”. They attribute this finding to the recent increase in globalisation and the formation of rigidities in the company structure prior to globalisation, which restrict it to solely domestic operation. This is a case of the firm becoming embedded in the domestic market by processes constructed to cope with pre-globalisation domestic activity, and finding the change to cope with international activity too costly and cumbersome.

Related to this, Bell *et al.* (1998) also found company structure could be a barrier. Perception is here again an active factor, as with Chetty & Hamilton (1996) (see above). Bell *et al.* (1998) claim that this is especially seen in family-owned firms where research

showed that there was less of a tendency towards growth strategies and a reluctance to internationalise due to fear of loss of control and lifestyle benefits.

The main increase in operational barriers to SME internationalisation has been attributed to the formation of the EU by Smallbone *et al.* (1996). The restructuring needed to cope with changes in technical standards and regulations, and the increase in competition in domestic markets, have both been shown to be detrimental to the SME's international prospects. The fact that these effects will be sectorally differentiated, is however no solace. As concerns technical standards and regulations, Smallbone *et al.* (1996), in their survey of food producers, found that 75% of the firms were affected. In terms of competition effects, they show that medium-sized firms will be most affected and regionally oriented firms least affected. These regionally oriented firms also tended to be the smallest.

Another operational barrier identified as a problem for SME is the *ad hoc* nature of the exporting process (Anderson *et al.*, 1996). The randomness of the process identified in several works can lead to difficulties in planning. These, along with the difficulties in information acquisition as another barrier (Cafferata & Mensi, 1995), retard the whole growth process. The identification of these information needs is discussed below.

### **2.9.3 Information Needs**

Research into the specific information needs of firms evolving into international markets has made significant contributions to policymaking (Anderson, 1993). They have, however, failed to establish any specific contributions to the export development process, but broad recommendations have been made. Initial research, in its consideration of the time factor, proposed that as time progressed, the firm's information acquisition increased, which in turn led to less uncertainty and hence greater allocation of resources to export marketing (Johanson & Wiedersheim-Paul (1975)). More specifically, needs are classified as follows.

In the early stages of export development, experiential and general information is of prime importance. Later in the development process, where international involvement becomes more complex, more specific and objective information is required (Leonidou *et al.*, 1996). There is an assertion that a learning curve exists, where uncertainty is high to begin with but diminishes as experience increases. Cafferata & Mensi (1995) assert that the need for information will depend on several factors. These include organisational structure, the internationalisation path chosen and type of competitive advantage sought, ranging from

efficiency (cost) advantages, through product differentiation, product personalisation, distribution efficiency, innovation and price and non-price competitiveness. The demand for information and communication services will increase as the firm moves from simple competitive advantages to more complex forms of technological and organisational innovations.

#### **2.9.4 Market Selection, Entry Choices and Subsequent Expansion**

The main findings in the research concerning market selection, modal choice and expansion cover a wide range of issues.

Market choice research has concentrated for decades on the concept of psychic distance (Dunning 1977). Current research has criticised this concept for its eclecticism, and asserts that there are different factors at play. The importance of this factor is less now than it ever was as shown by Leonidou & Katsikeas's (1996) observation that:

*"...increasing world-wide [sic] cultural homogeneity allows the novice in international business to enter foreign markets that are psychologically more distant." (p.538)*

The entry modes studied ranges from indirect exporting to more advanced forms of internationalisation such as strategic joint ventures and direct investments. A particularly interesting trend in recent literature is the rising importance of strategic alliances amid the rise of the new alliance capitalism as proposed by Dunning (1997).

As Bell *et al.* (1998) assert, the export development process should be treated within the holistic perspective of the firm with a myriad of choices available to it. This is supported by empirical evidence that shows that a combination of modes are used and occasionally move in an inverse manner, i.e. direct to indirect distribution modes (Turnbull 1987).

Bell *et al.* (1998) assert the market and modal choices should be considered as interdependent decisions because they are both linked to the level of international sales, level of export knowledge, and limitations on resources, especially in the early stages of export growth. This is discussed below. In consideration of the modal and market choices separately, consideration is first given to modal choice.

The variety of *modal choices* open to the SME include:

- exporting through agents
- direct exporting
- foreign direct investment (FDI)

- contractual agreements (joint ventures, licensing, franchising, networking)

All of these modes will differ in levels of resource commitment, risk, return potential and control. Of the main results, O'Farrell *et al.* (1998) found that there was no significant relationship between industry and modal choice, and that there was no evidence that there was any change from the initial mode, indicating an element of stasis. This is a conclusion supported by the earlier work of Bell (1995), where modal choice proved constant even if the firm had been operating internationally for some time.

This is, however, countered by Bell's later work (Bell *et al.*, 1998) where it is noted that the literature assumes that the firm has a myriad of options to choose from when it comes to method of distribution or mode of entry. The evidence presented suggests that these options are limited but expand with experience, and indeed modal choice does change. This is especially seen in the high-technology sector, where servicing methods have changed in some markets, suggesting that the sector has a more dynamic approach than the low-technology sector where, when there is any change, it has usually come only at the agent/distributor/direct selling level, where firms choose the appropriate level for the country selected. This thus shows the interdependence of the decisions as proposed above.

The main influences on modal choice have been found to stem from firm size, industrial character, product character, and managerial expertise. Berra *et al.* (1995) found a significant relationship between firm size and strategy chosen in their comparative study of large and small firms, with 68% of SMEs internationalising by contractual methods, 32% using non-co-operative agreements (54% for large firms), and 72% claiming that an external growth strategy was important (54% for large firms). External co-operative agreements provide the smaller firms with the ability to exploit low labour costs in lesser developed countries, wealth and stable demand (especially in the EU), favourable consumer models (primarily Japan), and also technological externalities as found in Germany and the USA.

Industrial and product character has been shown to be important, as noted above, in the high- and low- technology sectors (Bell *et al.*, 1998). It has been found that a more internally led approach is used, with marketing and distribution integration occurring when proprietary knowledge is important (Anderson & Coughlan, 1987); more direct exporting with customised packages is used, when a close relationship with the buyer is important. With more generic, "off-the-shelf" packages, exporting will more likely be done through an agent (Bell, 1995). O'Farrell *et al.* (1998) also considers the industrial sector important

in the modal choice decision. This is considered to be dependent on the complexities of information flows, the role of price competitiveness, the importance of partners, and the importance of the need to control risk and protect information within a particular sector.

The effect of managerial characteristics on the modal decision is clearly shown by O'Farrell *et al.* (1998). Their research shows that previous experience of international markets led to the consideration of alternative modes, with 59% choosing exporting as their initial mode of serving foreign markets and only 20% considering any alternative. This figure rose to 25% when further expansion was considered, showing the benefits of experience.

Their research also shows that little systematic analysis is carried out, with 67% basing contractual or branch office decisions on intuition; the analysis that did occur was fundamentally simple, with decisions based on relative costs, flexibility and marketing advantages.

Other factors shown to be important by O'Farrell *et al.*'s (1998) work is the desire to exploit managerial expertise, to overcome cultural and linguistic difficulties, and the level of demand for face-to-face contact. The results here are in contrast to research that portrays the company's decision as a series of rational evaluations (Stage and Transaction Cost Framework models). There is a variety of interactions between the client and the supplier, especially when client followership is considered an important variable in modal choice and market selection (Bell, 1995). These interactions are considered more important than location factors or country risk factors by O'Farrell *et al.* (1998), and they need to be incorporated into contemporary theory on modal choice.

Other important variables affecting modal choice are contact networks, availability of acceptable partners and, as discussed above, domestic conditions (O'Farrell *et al.*, 1998).

*"Strategies... incorporate complex processes, including no doubt patterns of cost analysis, progressive learning and inter-firm networking... also shown that sectoral, firm capacity and market constraints influence foreign market entry." (O'Farrell et al., 1998, p.27)*

In consideration of *market choice* the most cited reason of psychic distance stems from the empirical works of the Uppsala School in the 1970s which show that firms initially choose psychologically close countries then move into more "distant" markets. Bell (1995) and O'Farrell *et al.* (1998) challenge this proposition and even though Bell agrees that psychic distance may initially be important, there are, however, several factors which are just as, or

more, important. These include, client followership (as with modal choice), sectoral targeting, and industry trends. Bell (1995) also notes that behaviour tends to be *ad hoc* in nature and O'Farrell *et al.* (1998) affirm that the important factors are:

- client followership
- level of historical links
- cultural similarities
- degree of local competition
- government regulations
- the competitive situation in the target market

Bell *et al.* (1998) proposes client followership as an important factor, lending support to the attack on the psychic distance concept. Bell *et al.* (1998) only find psychic distance important in a few of their cases, and then only as one of several contributory factors. They also identify global industry specific trends and important lead markets such as the USA, as well as pre-existing contacts from previous employment, as all important in influencing the market selection decision. These results reaffirm the importance of having an understanding of the context within which decisions are made.

O'Farrell *et al.* (1998) find from their study that the vast majority of firms did not make an explicit international market selection decision, with the four most important factors in determining the location of their foreign activities being:

- one-off projects
- piggy-back entry
- the pull by UK clients internationalising
- a proactive decision

Where proactive decision-making was important, usually the market choice was given, with only demand side variables being important, such as appropriate market segment, market size, and communication links. Risks and local costs were not seen as important. The results here show that overall the decision to undertake the project was often more important than a specific location choice.

In consideration of subsequent market expansion, there have been two modes favoured, market concentration and market spreading after the early concentration of resources. In

the later stages, as diversification occurs, firms will either concentrate on one/few markets, or expand into several new foreign markets. The factors believed to cause this expansion include the fact that, as resources increase, focus broadens. This is because of the assumption that export/foreign activities are profitable, a proposition challenged by Chetty & Hamilton (1995). Expansion is also encouraged by the minimisation of risk that market spreading allows, and, as noted above, problems will decrease as experiential knowledge increases, the hypothetical learning curve.

Other interesting points worthy of note include findings on marketing control and adaptations. Information flows from customers are critical at the early stages of development when the firm has less control. As this control increases so will exports. An important caveat here is that in “hard” markets, firms may prefer to relinquish control to importing agents. In terms of marketing adaptation, in the early stages of exporting a generic strategy may be undertaken where psychic distance is high. In the later stages of the process a complex marketing mix may be more probable. Overall, Table 4 below shows the main elements of the models analysed in this section. From the variety of influences on the process, the difference from the traditional stage models as shown in Table 3 can be clearly seen. These differences are especially seen with reference to the role of perceptions of the international market and profitability, and a greater understanding of context of the economy, the industry, the product and contact networks.

**Table 4: Factors important in the Internationalisation of SMEs.**

	<b>Facilitators</b>	<b>Stimuli</b>	<b>Barriers</b>	<b>Market Selection</b>	<b>Modal Choice</b>
<b>Internal Factors</b>	International experience; Innovative; International orientation; Tradable goods; Good organisational learning; Possession of minimum competencies;	Desire to reach economies of scale; Profit perceptions;	Adverse managerial attitudes; Negative perceptions; Lack of financial resources;	Psychic distance; Previous employment and contacts;	Risk perception of alternatives; Previous experience; Managerial expertise; Firm size; Product character (whether “hands-on” approach needed);
<b>External Factors</b>	Networks; EU; Good domestic market;	<i>Ad hoc</i> order; Small domestic market; Government export promotion;	Export administration documentation;	Client followership; Industry trends; Lead markets; Level of competition in target market; Historical links; Communication links;	Industrial character; Level of competition in target market;



## **2.10 Conclusions & Discussion**

From the above review it can be seen that the main issues in the literature revolve around:

- Theoretical framework (positivist approaches to more context dependent approaches)
- The method of data collection (and what are the appropriate methods for theory building which the research arena is lacking)
- Method of analysis, asking the question as to whether either quantitative analysis or qualitative analysis provides the fuller picture of the internationalisation of the SME
- Questions concerning the deficiency of deep causal understanding in the existing literature

The major issue in the literature is the failure of the stage approach to understand internationalisation in any substantial depth. Although the literature does not only confront the overall process of internationalisation but also its triggers and facilitators, the main aim of most of the literature is to provide inputs to enable theory-building. From the existing research, it is clearly shown that there are disagreements concerning the determinants of the push to become international. This is especially seen in the concentration in some parts of the literature on purely quantifiable variables causing exporting such as government support, industrial trends and customer demands, whereas other studies have concentrated on managerial characteristics, network relationships and management team attitude to international markets. These are all very subjective characteristics. Through this dichotomy, another arises, the important distinction between external determinants and internal determinants. Internal studies show a greater concern for a more behaviourist approach, with a greater focus on understanding deep causal relationships.

The base of these problems rests on a lack of understanding of the underlying character of the SME, and reluctance by researchers to draw on a relevant philosophical framework to inform methodology and theory-building.

These are factors to be dealt with in Chapter 3. The basis for the criticism of current research directions is the belief that SMEs are indeed not homogeneous bodies, even if we classify them by industry, age or size. They are unique enterprises run by unique personnel operating under different structures, communicating action through different mechanisms and made up of individuals with different tendencies. Even though we live in a social structure which at one level may be considered generic, at deeper levels these

structures are more contingent on character, experience and position. The same is true for the mechanisms and tendencies under study. The established economics discipline takes a different point of view.

Mainstream economics considers the unit under study to be rational (economic) man that makes rational choices in a structured environment. By extrapolation, we can consider this the condition of the whole population. Based on this premise, positivism seems a feasible direction of study.

To expand the argument, we can consider the actions of very large enterprises to be tempered towards “rational” decision-making. We can support this with the proposition that the spread of reactions or choices made by the decision-makers (board members, owners and shareholders) is wide enough so as to cancel out any extreme views or decisions and gravitate towards the “economic”. This is rather like the spread of risk with diversification.

In contrast, the decision-making process of the SME will more closely mirror the experiences, perceptions and “local” environment to a greater degree, facilitating the occurrence of outcomes that at first appear extreme or uneconomic. These are outcomes which reflect the personality of the individual management team to a greater degree and are in fact much more highly context-dependent than in larger enterprises. This element of risk taking is a characteristic attributed to the SME and the entrepreneur.

With reference to the above, we can approximate the operation of large companies to that of a machine, where it will provide a more discernible output to specific inputs. The SME on the other hand will operate, overall, in a more context-dependent fashion. The SME will react to stimuli at several levels, with a myriad of outcomes and these stimuli will operate both internally and externally. Internal stimuli will include the traits of the decision-makers, firm characteristics (such as size, ownership, control relationships), and industrial character and trends. External stimuli are primarily the general economic environment, national economic environment, local environment, industrial sector lead markets and external network arrangements.

The discussion above provides the basis for the use of a critical realist framework in the study of the internationalisation of the SME. These points are examined in detail in the next chapter.



### 3.1 Introduction

*“Realism connotes any viewpoint that accords to the objects of man’s knowledge an existence that is independent of whether he is perceiving or thinking about them” (Encyclopaedia Britannica, 1998).*

There exists more than just what we observe, there exists underlying structures and mechanisms which influence our actions. These structures interact with the surrounding contingent environment to produce observable outcomes. A critical realist approach attempts to investigate what can be observed, the actual environment which surrounds us, and through this, to identify the underlying structures of importance, structures that cannot be observed.

In essence, a critical realist approach attempts to understand the interplay between structure at one level, and contingent circumstance, both internal and external at another. Critical realism is concerned with the role of structure and how structural effects come into play under certain contingent circumstances to produce outcomes/events.

The aim of this chapter is therefore to provide an explicit theoretical framework for the methodology adopted. This framework acts as a guide for the rest of this study and for constructing the conceptual framework upon which the research is based. The conceptual framework draws on previous research by Dunham & Healey (1996) and Dunham (1997) and delineates the issues that lie at the level of the external and internal contingent environments and the role played by structure at a deeper level.

Because this research is concerned with understanding the differing levels of internationalisation among SMEs, “how?” and “why?” questions become important in the investigation. This is opposed to the explanatory and predictive questions associated with quantitative research that relies solely on approaches such as positivism. The difference between the terms ‘explanation’ and ‘understanding’ therefore needs to be made explicit, as:

*“Ordinary usage does not make a sharp distinction between the words ‘explain’ and ‘understand’.” (Hammersley, 1993: p.11)*

There is, however, a difference between these two terms, for as Fay (1975) notes, there is a link between scientific explanation and prediction. Within positivism, an event is

‘explained’ when the determining factors or ‘causes’ are identified. In this respect, for positivists:

“...an explanation is not complete unless it could have functioned as a prediction.” (Fay, 1975: p.34)

This is the interrelationship explanation has with prediction; a relationship that understanding does not. Anti-positivists attack this positivist view of explanation, and its link with prediction. Some anti-positivists believe that explanation should be solely the aim of the natural sciences, while the human sciences, such as history, should be concerned with understanding (Hammersley, 1993). This was also the belief of Wilhelm Dilthey (1833-1911), who suggested that nature is explained, however, social and human intentions are understood (Holt-Jensen, 1988).

The conception of these two terms is important here. In critical realist terms the concern is with understanding, not explanation. As noted by von Wright (1971), understanding has a psychological ‘ring’ about it, which has a connection with intentionality that explanation does not. As an example, von Wright (1971) posits that one *understands* the purposes of an agent, a central concern of the current thesis, however, despite this understanding, one may not be able to *explain* these purposes. The terms *understanding* and *explanation* should, therefore, be appreciated in this context.

Following on from this, the rest of this chapter will introduce the main elements of critical realism and the implications it has for the methodology used in this research. The reason for the use of critical realism is that it is felt that it provides an appropriate framework to assist in the *understanding* of the complex and multi-faceted process by which SMEs become involved in international markets and the subsequent internationalisation levels seen.

The rest of the Chapter is organised as follows. A definition of philosophical terms used is given, followed by an argument outlining the limitations of a positivist approach to achieving the aims of the current research. An introduction to the basic premises of critical realism follows, along with a more thorough discussion of its main principles. The effect that the use of a critical realist approach has on methodology and the study of SMEs, and the main criticisms of this approach, complete the chapter. Initially, a perspective on reality is outlined below.

### **3.2 A Vision of Reality**

*“Critical realism does... reject “closed”, ahistorical, universalistic, noncultural, and excessively abstract social analyses such as those typical in the deductive formalisations of mainstream economics.” (Jennings & Waller, 1995: p.409)*

It is important to delineate the philosophical basis from which the argument for a critical realist perspective originates. It is the main belief here that we do not live in a closed system, and we do not passively follow predetermined courses of action. We all make choices, and because we all make choices, any result of an action could have been different. These choices are governed both by individual character, the prevailing internal and external contingent environments, and the constraints of societal rules and structures.

These structures however, are not antecedent to human life, they are structures built through the actions of the individual. Conversely, the individual could not interact without these structures. As individuals we all make choices due to the structures that surround us, the prevailing environment, and our own set of beliefs. The interaction of all of these factors governs our actions.

Structures are also spatially and temporally unique, and governed by such factors as beliefs, interpersonal relationships, locale, history, culture, and our position in society which reflects the role we play. None of these factors are ubiquitous. We therefore make an active choice to do or not to do, and indeed how to do it. North (1995) states that:

*“... history matters, that the choices we make today and tomorrow are constrained by the past evolution of the belief system and institutions of the society.” (p.11).*

Because these factors affect decisions, they are important in understanding the internationalisation process of the SME. The critical realist framework is used here as a starting point to understand the underlying causes of this process.

Herbert Simon (1986) recommends an approach to understanding human action in a dynamic context:

*“... we must distinguish between the real world and the actor’s perception of it and reasoning about it ...must include not only the reasoning process but also the processes that generate the actor’s subjective representation of the decision problem, his or her frame.” (p.210-211)*

We are therefore not passive recipients of information leading us to passively follow a certain path. Within a framework of positivism, however, this is the course and “cause” of action. Bhaskar (1975) believed that positivists oversimplify reality in this sense, as they collapse the three domains of reality (the real, the actual, and the empirical) into one. His objection to positivism is clear. He states that causality (which critical realists believe to be grounded at the level of mechanisms that are not observable) does not necessarily follow pattern (the actual) or experience (the empirical). Positivists, however, collapse the three separate domains into one, accepting a flat version of reality, where knowledge is only gained from the empirical/observable environment.

Although, as members of society we do not act in a random chaotic fashion, we do not operate in a predetermined manner either, as positivist approaches suggest. Although we make these choices, which may be at odds with a choice made by another individual in a similar position, we make them for specific reasons. This is shown by Chetty & Hamilton (1996) where two managers made different decisions when confronted with the same external stimulus.

Prevailing structures, personal tendencies and the surrounding environment, which critical realism attempts to identify, determine these different actions. Resulting actions are due to the tendencies an individual possesses, and the interaction between dominant structures and the external and internal contingent environments.

Applying critical realism to the study of the SME should, therefore, allow greater insights into the process by which such organisations get involved in international markets by identifying the structures and contingencies of importance. It is suggested the SME's actions reflect the individual character of the decision-makers to a greater extent than in a large company, and because of this, critical realism is considered as a particularly appropriate framework. It is believed that larger companies will not reflect individual character to such a degree because the decision-making process encompasses more individuals, leading to a more ‘rational’ outcome with ‘extreme’ decisions being reduced by the diversification of viewpoints. This is akin to the diversification of risk with large portfolio investments. This does not mean that critical realism is inappropriate to the study of large companies, it simply means that the underlying structures and mechanisms will be more straightforward to investigate in SMEs because of the lower number of actors involved.

It is therefore the aim here to identify these underlying structures and contingencies that operate in the SME's internationalisation process. By the use of critical realism, the cause-effect relationship can be better understood. Understanding how the process operates, and why the process occurred in the manner it has, are the main aims here.

### **3.3 Definitions of Terms Used**

The main terms used in philosophical discussion are outlined below. The terms *epistemology* and *ontology* are often used when discussing the issues of knowledge and being. Firstly, *epistemology* refers to the origin, nature, methods and validity of human knowledge and its correspondence to experience and objects. According to Hindess (1977), a theory that is epistemological seeks to relate the realm of knowledge to the realm of objects. Quinton (1988) defines *epistemology* as:

*"... the philosophical theory of knowledge, which seeks to define it, distinguish its principal varieties, identify its sources and establish its limits" (p.279)*

The main issue here is whether knowledge is derived purely from experience. Empiricists' investigation treats reality as operating on a single, observable level. What is *known* and observable is the main concern here. Empiricists believe that all knowledge that exists is derived from our experiences. Rationalists, at the other end of the spectrum, reject the notion that knowledge is attained from experience and affirm that human knowledge is innate or inborn.

*Ontological theories* are concerned with the nature of human *being*, sometimes called meta-theories. Bhaskar (1978) identifies three broad ontologies in philosophy. From classical empiricism, the object of knowledge is an atomistic event with a direct relation between the knowledge and the event. This is in fact stating that all knowledge emerges from our experiences and proposes a "flat" ontological view of society, collapsing ontological issues into purely epistemic terms (referred to as an *epistemic fallacy*). In economics especially, an acceptance of a "flat" or "compacted" social ontology has been widely encouraged (Reed, 1997). In transcendental idealism knowledge is viewed as a structure rather than a surface, unlike classical empiricism. In critical realism, as used here, the underlying ontology:

*"regards the ultimate objects of knowledge as 'the structures and mechanisms that generate phenomena' and which are intransitive in the sense that 'such objects exist and act independently of their identification'." (Johnston et al., 1994: p.426)*



The differences in these philosophical approaches mainly stem from the differing importance each places on the role of structure and the individual or agent, where either the role of structure or the individual is ignored. The importance of understanding the roles of both in context is discussed below.

### **3.4 Structure & Agency: Duality not Dominance**

Both structure and the individual have a role to play in society. Sayer (1984) defines structure as “sets of internally related objects or practices”. Jackson (1995) defines structure as:

*“...a set of objects or practices that are internally related and not a mere aggregation of independent, externally related objects.” (p.766)*

In society there is a structure where individuals possess “role-position” relationships. In other words, what position an individual holds will determine their role and power within the structure. The powers that are possessed are, however, not reducible to the individual, but due to their position within society. The teacher’s role is determined by their position as teacher, the student’s role by their position as student. They have different roles due to their positions. These role-positions will determine the actions of individuals. Structure will determine the actions of an individual due to their position within the structure. The business organisation is therefore a structural entity that is moulded to a particular form by the actions of individuals in position-practice activities; i.e. an individual’s position will determine the nature of their actions.

However, these structures will only endure if reproduced by human action. Structures are difficult to change as they are constantly reproduced by human action in a mostly unintentional manner. Human beings depend on these structures, therefore these structures are social. The ability of these structures to enable as well as to constrain establishes that they are real. Structures themselves have causal powers and are manifested *“as tendencies whose activation, as well as the effects of their activation are not given but contingent”* (Tsoukas, 1989: p.552).

In relating this concept of role-positions to organisations, Reed (1997) notes that the organisation is therefore a structural entity which is moulded through the actions of people in “position-practice” activities, i.e. their position will determine their actions. This is however not a mechanically determined activity, structure merely provides:

*“...reasons for different courses of action to those who are differently positioned.”*  
(Archer, 1995: p.154)

Over the last two decades there has been an increasing tendency to reject the dualism of agency and structure. Approaches such as ethnomethodology, actor-network theory and post-structuralism:

*“... dispense with the need to distinguish analytically between different levels or forms of social reality as represented in the ‘agency/structure’ distinction.”* (Reed, 1997: p.23)

The cause of these theoretical changes has been referred to as the post-modern ‘turn’ or ‘sensibility’ (Sayer, 1995). The majority of these new studies share an epistemology where *“the local, the decentral, the marginal and the excluded is superior to examining what is at the centre”* (Rosenau, 1992: p.136). As an example of this, actor-network theory and ethnomethodology believe that only process exists and structure is only an effect of process. With this form of approach, organisations are therefore considered as entirely process-driven with no internal structure.

The post-modern approaches operate at the other extreme to positivism, where the centre, the average, and the rational, are the subjects of interest for the positivist. Critical realism attempts to cover a more appropriate philosophical middle-ground, where the various elements of reality can be understood.

One of the leading figures in entrepreneurial research, Joseph Schumpeter, provides a useful description of structure:

*“...social structures, types and attitudes are coins that are not readily melted. Once they are formed, they persist, possibly for centuries... compel individuals and groups to behave in certain ways whatever they may wish to do – not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the possibilities from which to choose.”* (Schumpeter, 1974: p.130)

Structures in society, therefore, will not determine what individuals do, structures will act as more of a regulator/constrainer as to the choices available. Choice is therefore retained. The choices opened to the SME are therefore regulated by the structure they operate in, but do not determine which option is chosen. What is attempted here is therefore to understand why different choices are taken with respect to the internationalisation decision of the SME. Structures of importance like the capitalist mode of production or the supply-chain both guide the SME down certain paths, but will not deterministically presuppose a

certain choice. The choices made will also be influenced by the character of the decision-maker, the surrounding environment and the past history of the SME, which will all influence perceptions and hence tendencies. This is why it is important to understand the character of the object in question, as once it is known what the important levels for investigation are, research methods can then be developed to investigate these levels. The levels for investigation are therefore at the personal level, the historical level, the industrial level, and at a deeper level, social structures.

Social structures will pre-exist any social actions, and it is through social action that these structures are reproduced or transformed. Although structure and agency are interdependent they are separate and distinct. They share ontological interdependence, as one cannot exist without the other. However, they operate at different levels or strata in reality, while interacting and reproducing or transforming society.

On a deep level, where we can make sense of events and experiences, structure leads behaviour into certain channels where choice is still available. In these channels agents choose actions within the structure provided. Personal beliefs and the contingent (place- and time-specific) environment then govern the individual choices.

Therefore, there appears to be a duality between the role of structure and the role of the individual agent in society, where one does not dominate the other, but a level of interdependence is seen. This is what a critical realist approach allows for. This is not an element of positivist thought and, therefore, a limitation of positivist approaches is in providing an understanding of the interplay between structure and agency.

### **3.5 Limitations of a Positivist Approach**

Positivism may be an appropriate approach for assisting in explanation, prediction, and generalisation, unlike the approach used in the current research. However, positivism does not provide the means by which to meet the aims of the current research, which is to understand why an event has occurred in the manner it has (differing levels of internationalisation) through the interaction structure has with the contingent environments and the decision-makers. Positivism may provide explanation as to what has occurred, but is less able to understand why.

The three basic tenets of positivism (von Wright, 1971) are:

- 1) Methodological monism, a belief in the unity of scientific method

- 2) The exact natural sciences (mathematical physics) set a methodological ideal
- 3) A belief that scientific explanation exhibits ‘causality’

The limitations of a positivist approach are considered to centre on these three tenets.

In terms of the unity of scientific method, Wilhelm Windelband (1848-1915) rejected positivism’s concept of a unified science in preference to defining a dichotomous empirical science, separated by the nomothetic (law-seeking) and ideographic (descriptive) or historical sciences (Holt-Jensen, 1988). Such a stance suggests that empirical science does not necessarily have to be nomothetic, as positivism, it can also be ideographic in the way of critical realism.

As concerns mathematical physics as a methodological ideal, the limitation here is centred on the inability of such an approach to *understand* phenomena which is directly related to the acceptance in positivism of a ‘flat’ version of reality. Positivists object to attributing causation to *occult entities*<sup>7</sup> (Hammersley, 1993). This is however something that critical realism accepts. Although these occult entities may be inaccessible to direct human observation, they are nevertheless relevant to the issues at hand, especially when it is considered that different internationalisation outcomes have been observed under the same economic conditions (Chetty & Hamilton, 1996). The reasons for such different outcomes may therefore lie at a level below that of the observable, a level that cannot be investigated by such ‘methodological ideals’ as mathematical physics.

Therefore, “... *realism is built first and foremost on a rejection of positivism*” (Cloke *et al*, 1991: p.135). This rejection is in relation to positivism’s acceptance of a flat version of reality, where knowledge is gained only from the empirical/observable environment. Critical realism, however, proposes a multi-levelled version of reality, made up of events, mechanisms and deep structures. Critical realism seeks to understand events through an appreciation of the interplay between these mechanisms and structures. This is opposed to positivist research, which attempts to attach a level of causality to observable events through the discovery of correlations and regularities at this level. In such a case, therefore, “...*pattern and regularity are the guiding indicators of causality*” (Cloke *et al*, 1991: p.135).

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<sup>7</sup> Occult entities are considered as those that lie below the level of the observable.

This conception of causality was central to Comte's (1798-1857) beliefs, where he posited three stages of development for society:

- 1) Theological- everything was explained as "god's will"
- 2) Metaphysical- that which lies outside our perception
- 3) Positive- "...when causal connections are discovered between empirically observed phenomena" (Holt-Jensen, 1988: p.89) (emphasis added)

Positivists, therefore, attribute causation to correlations and regularities, which are surface phenomena. Realism challenges the positivist's conception of causality. Whereas positivists believe this is the highest level of knowledge, critical realists believe that causation rests with the mechanisms within deep structures, the metaphysical<sup>8</sup>. Realists view causality as embedded in the *nature* of the object being studied and the interactions it has with other 'things'.

Unlike critical realists, the positivist's conception of causality is grounded in their mode of scientific investigation, where investigation leads to causal laws of the type: if X then Y under Z conditions, where X, Y, and Z are all observable variables (Fay, 1975). Positivist's conception of science is to utilise these causal laws in a deductive chain of wider and wider generalisability, where causal explanations are considered the most important type of deductive-nomological explanation.

For positivists: "*Causal laws, therefore, state an invariable sequential order of dependence between kinds of states of affairs*" (Fay, 1975: p.33).

Critical realism's conception of causality is therefore separate and distinct from that of the positivist's tradition, as critical realists believe:

*"Causality is a tendency grounded in the interactions between generative mechanisms in the domain of the real. These interactions may or may not lead to events in the actual domain, which may or may not be observed in the empirical domain."* (Cloke et al, 1991: p.138) (emphasis added).

Realism is, therefore, built on a rejection of positivism and is preferred because of its ability to provide a layered/stratified social ontology that is considered by some as significantly more robust than positivism (Reed, 1997). Positivism, the antithesis of a

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<sup>8</sup> Metaphysics is considered to be "... that which lies outside our sense perceptions or is independent of them" (Holt-Jensen, 1988: p.88).

realist perspective, is concerned mainly with facts and opposed to questions about values and intentions, it is concerned with the “positive” elements of experience, preferring to attempt to identify regularity, order and pattern. Observation and the external world are paramount, the internal context-based world (the individual and the contingent environment) and history are largely ignored. “Reality” in a positivist sense is considered the world that can be directly observed or sensed, rejecting any concept of metaphysics and unobservable structures.

Positivism was founded on the belief that science could only tackle empirical issues, questions about facts (Holt-Jensen, 1988). It was believed that science could not handle normative questions, questions about values and intentions. In this framework, reality is the world that can be sensed, and metaphysical questions were considered unscientific. Positivism was, therefore, founded as an objective, value-free philosophy. In attacking this conception, Fay (1975) inferred that:

*“...this means that the positivist’s understanding of the role that values play in social science is inaccurate, which means, in turn, his [sic] conception of social science cannot be accurate.” (p.65)*

However, in this vein of positivist thought, Locke (1632-1704) believed that all knowledge is derived from our sense of it, that knowledge can only come from observations of “real” conditions (Holt-Jensen, 1988). These were the same principles that Comte used to discover the “laws” of society. Although it was believed the laws of society were more complex than that of nature, Comte believed that these laws of society would eventually be discovered, ignoring any form of ontological enquiry, enquiry into the nature of being (Holt-Jensen, 1988).

Positivists believed that nothing should be believed until there was empirical evidence to support it, basing their methodology on the hypothetic-deductive method of physics. These “scientists” believed that all disciplines should follow this method and the different disciplines should only be discernible by the object that was being studied.

In exhibiting the limitation of this approach, take the current object of study, the SME. The SME is more likely to act in accordance with the individual wishes, tendencies and character of the management team than would a large organisation. This is because the division between ownership and control is less pronounced in SMEs than in larger organisations, and large organisations, to some degree, have more control over the marketplace. There is also a reduction of extreme decisions due to the diversification in

decision-making. Because of these less rational, less 'economic' processes in the SME, an investigation of this object is needed at a deeper level. Such investigation is not possible within positivism because of its reliance on a single layered vision of reality, with the "real" world being treated as that which can be observed directly.

It has been acceptable within the internationalisation research to gather static data on a large sample of SMEs and hypothesise on relationships that have facilitated internationalisation. This, however, does not lead to a robust understanding of the underlying relationship between structure and agency. With this form of investigation, answers to "what has happened?" (explanation) are given. These answers are, however, used to explain causation, which critical realists propose is difficult in a framework of this type.

The myriad of factors involved is only understood when taken as a whole, in a real context. The economics method of experimental isolation, investigating one facet of an object by isolating its analysis, will not lead to an understanding of process because the underlying frameworks are not present to allow this. Critical realists believe that only by investigating human behaviours at the individual level can their causes be understood. Positivism proposes a different conception of causation, determined from those factors that can be observed.

It is appreciated that there are several influencing mechanisms underlying any human action (event outcome), and this will also apply to any organisation. These underlying mechanisms will be more pronounced in smaller companies because the decision-making base is smaller and more heavily influenced by the characteristics of the key players and therefore an approach that understands these characteristics is needed.

Sayer (1984) categorises positivism as the search for empirical regularities, leading to the formation of universal statements, envisioning a constant mechanism operating under constant conditions for causing these said regularities and inferring causation. He, therefore, concludes that positivism is only appropriate for studies of closed systems, which are rare outside the celestial closure (Lawson, 1997). A positivist approach is, therefore, not considered appropriate to understanding the SME in the context needed here.

One of the main shortcomings of positivism is an uncritical acceptance of certain results and especially the concept of a constant-conjunction of scientific laws. As the social world is open, because as humans we make choices (and therefore results could have been different) these assumptions of 'regularities' cause problems. If outcomes could have been

different than economic “laws” cannot be treated as such, they must be merely treated as tendencies. This however does not mean that understanding the social realm is impossible (Lawson, 1997):

“...we must embrace a very different conception of explanation to the deductivist covering-law model.” (p.36).

We do not need to attempt explanation in terms of constant-conjunction laws, or deduction of events from certain conditions. Instead, an attempt at *understanding* of structures/mechanisms that facilitate/reproduce social phenomenon can also assist in the expansion of our knowledge of society.

The inherent limitation of positivism is that if these rules/assumptions are followed, human ‘choice’ is then externally given, exogenous, and there is in fact no choice. These problems do not arise in critical realism, as choice is available. Positivism suggests determinism, and *vice versa*.

In a critical realist’s reality, there is a realm of structures and mechanisms that are irreducible to actual phenomena (human action). Structures only govern, facilitate, produce or condition human action, i.e. language as structure facilitates speech; it does not however determine what is said (Lawson, 1997). Choice is therefore retained.

Positivism makes human choice passive, lacking intrinsic structure with reactions as a passive response to exogenous factors. With positivism as a theoretical foundation, knowledge is acquired by the recording of atomistic events or states of affairs. Humans are then assumed to respond optimally to these ‘signals’. In breaking from positivism, a realm of intransitive objects (real entities and relations) is acknowledged, which exist independently of the enquiry centred on them.

The positivist framework presupposes an ontology where atomistic events and constant conjunctions<sup>9</sup> lead to a social theory where people act as passive sensors of atomistic events. This implicit theory of methodology, which is presupposed, paints reality as given only in our perception of it. Lawson (1997) notes that with a positivist methodology, the knowledge process is “monistic”, the gathering of “incorrigible facts”.

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<sup>9</sup> An important caveat here is that within a critical realist framework, constant conjunctions are not impossible, but only believed to occur under strict conditions.



The main failure here is a lack of ontological enquiry where the nature of the object of study is not investigated. In an open world, positivism's search for regularity through hypothesis testing is criticised by Cloke *et al.* (1991). They use as an example, the attempted explanation for the urban to rural shift of the manufacturing industry in the UK in the last decade given by Sayer (1984) as a criticism of positivism. They represent the hypotheses as below:

Hypothesis 1: The shift was caused by some areas having Assisted Area Status.

This was an incorrect proposition as areas such as East Anglia had experienced an increase in manufacturing employment, but was not an Assisted Area. Status as an Assisted Area could have had an influence on this urban to rural shift, but it was not the cause of the process.

Hypothesis 2: The shift was caused by the readily available pool of female labour in the receiving area.

This was not accepted as the cause because of other labour market considerations that would be addressed before a company relocated. Factors such as cheapness of labour, level of unionisation, and the skills base would be at least as important as the pool of female labour. In some cases relocation encompassed restructuring in the form of replacing labour with capital. As above, it could have been an influence, not a cause.

Hypothesis 3: "Rurality" was the cause of the shift.

Cloke *et al.* (1991) criticises this concept as it attributes a level of causal power to rurality (a chaotic conception). Sayer (1984) asks what it is about rurality that could possibly cause it to attract manufacturing. As a causal power it lacks any definition.

Throughout this example Cloke *et al.* show the deficiencies in positivism with its reliance on a "simple" association between cause and effect, the real and the observed, and its assumption of a closed system. In positivistic thought:

*"It is taken for granted that causes, effects and observation neatly map onto each other, for within positivism there can be no unobservable causes or effects that are not associated with causes co-terminus in space and contiguous in time."* (Cloke *et al.*, 1991: p.146)

On the other hand:

*“Realism presents an alternative by assuming a stratified and differentiated world made up of events, mechanisms and structures in an open system where there are complex, reproducing and sometimes transforming interactions between structure and agency whose recovery will provide ‘answers’ to questions posed about processes such as the urban-to-rural shift.”(Cloke et al., 1991:p.146)*

In a critical realist analysis, the urban to rural shift would be investigated in a manner that would attempt to explain the shift with reference to the underlying structures and tendencies operating in society and industry (the external contingent environment) at the time and place of the shifts. There are a variety of reasons for the shift and consideration must be given to the fact that the shift was caused by a variety of individuals making decisions at different times, in different places, under different conditions (the internal contingent environment).

The rules formed by positivism, of the form x leads to y, with all other factors constant, is not a reflection of the way society actually is, but a broad generalisation, carried to a high level of abstraction. Sayer (1985) explains that positivists believe that in order to understand processes they:

*“... must discover the regularities of universal laws governing their behaviour. Hence the thrust of research must be towards the discovery of order.” (p.161)*

Positivists therefore, in construction of theory, require little participation from the individual. Instead:

*“All that is required is that human agents rebound in atom-like fashion to external influences.” (Lawson, 1995: p.11)*

However, in society these regularities tend to be approximate, and temporally and spatially specific, unique rather than repetitive (Holt-Jensen, 1988). Positivism provides little understanding of the type of cause-effect relationships sought here, and instead relies on statistical probabilities to highlight and explain the factors causing phenomenon. Solow (1986) recommends that for economic theory to be more relevant to understanding society it must embrace the concept that, in reality, decisions are the product of context-specific values and habits. This relates directly to the contingent environment (context specific values) and structure (habits or accepted ways of acting). This is the belief here, where a

critical realist approach is taken to understand these factors, as explained in the next section.

### **3.6 Background of Critical Realism**

This layered ontology of critical realism “*is believed to incorporate more structurally robust and inclusive theoretical approaches*” (Reed, 1997: p.22) through which understanding can be achieved. Critical realist ontology recognises that there exists structures, powers, mechanisms and necessary relations, which govern the complex events in the real world. The variety of effects on an occurrence is symbolised by Lawson (1995) in his example of the falling leaf that is not only governed by gravity as it falls, but also by aerodynamics, thermodynamics, inertia and other tendencies.

Relating this to the SME, a desire to attain greater profits may govern the operation of the company under a capitalist structure, but the underlying tendencies and character of the decision-maker, and other external contingent circumstances will all influence the mode by which these profits are achieved. The aim here, informed from the theoretical approach of critical realism, is therefore to identify these structures, and demonstrate their interaction with the tendencies of the decision-maker and internal and external environmental contingencies of importance.

*“Critical realism asserts that there is a reality independent of our perception of it. That reality is composed not only of events and our experience or impressions of them, but also of (irreducible) structures and mechanisms, powers and tendencies, etc., that, although not directly observable, nevertheless underlie actual events that we experience and govern or produce them.” (Lawson, 1994:p262)*

Critical realism therefore has a “nested” social ontology where:

*“... social mechanisms and processes operate at different levels of abstraction that tie into each other within a stratified, multi-level and relational model of society.” (Reed, 1997: p.31)*

The social world is an open system. This is because people make choices and therefore events could have been different, assuming people made a conscious choice. Therefore, we must then postulate that human action is intentional. They must, therefore, also have knowledge and there must then be a degree of durability of the objects of knowledge. These enduring objects lie at a different level, that of structure, which we cannot observe.

If these structures exist, they cannot be observed directly; only through the fact that they have an effect and a material outcome do we know that they exist. Lawson seeks to facilitate an understanding of these structures by relating them to everyday practices, shown in Table 5. The interdependence of these structures and human agency can be seen, i.e. there would be no rules of grammar if we did not speak, nor a highway code if we did not drive.

**Table 5: Activities and Structures**

<b>HUMAN ACTIVITIES</b>	<b>RELEVANT STRUCTURES</b>
Speaking	Rules of Grammar
Driving	Highway Code
Cashing Cheques	Banking Systems
Playing Games	Rules of Play
Lecturing	Teacher-Student Relations
Production of goods to attain profits	Capitalism

Adapted from Lawson (1997)

Commons (1934) provides a more loquacious description:

*“The business man who declines to use the banking system which has grown up in the past, the labourer who refuses to come to work when others come, may be industrious, but he cannot live in industrial society. This is familiar enough... But when customs change, or when judges and arbitrators enforce a custom by deciding a dispute, or when labourers or farmers strike in order to modify a custom of business, or when a revolution confiscates slaves or other property of capitalists, or when a statute prohibits a customary mode of living, or when a holding company extends an old custom into new fields- then it is realised that the compulsion of custom has been there all along, but unquestioned and undisturbed.” (p.401)*

Social structures depend on the existence of human beings. In the natural world, gravity does not depend on the existence of the proverbial leaf, it exists independently of the leaf. Human agency and social structures are interdependent, one cannot exist without the other. Social structure is indeed only exhibited by human activity. Because human beings make choices, and because results could have been different, human beings live in an open

system and therefore social structure can only ever operate in an open system. This line of argument must therefore lead us to interpret 'economic laws' merely as tendencies, with event regularities only ever occurring rarely.

The constant changes in such structures as grammar, the highway code and the banking system, as they adapt to changes in society, shows the dynamism in structural change and hence society. This is also reflected in the current research where changes in perceptions of the international marketplace are shown as important in the SME internationalisation process, leading in one case to stasis in the process (as seen in Chapter 6: Case Study Report 1). This can only be understood by appreciating the changes in the structures of importance to the decision-maker and their interaction with the contingent environment.

In critical realism, the objects of knowledge are not observable events. They are the structures and mechanisms that cause phenomena. These are real structures, which exist independently of our knowledge of them. They are real because they influence action.

Critical realism acknowledges three domains of reality: the real; the actual; and the empirical (Sayer, 1984). The real is made up of mechanisms, events and experience; the actual of events and mechanisms; and the empirical of just our experience. These three elements provide the foundation of the realist philosophy.

The five main principles of critical realism are:

1. There is a distinction between transitive objects (models, concepts) and intransitive objects (real entities and relations) which make up the real world.
2. Reality is layered into the real, the actual, and the empirical.
3. Causality is grounded in the real, which may lead to actual events, and may/may not be observed in the empirical.
4. Empiricism is rejected where the real definitions of an object are made with reference to its context and nature.
5. Explanation rests on explanatory mechanisms to demonstrate their existence.

These real structures however:

*"...exist and operate independently of the pattern of events they generate." (Bhaskar, 1978: p.3)*

These structures can also be influenced by human agency. Therefore, in Bhaskar's terms, there is a "transformational model" of society where societal structure acts as a causal mechanism, which is reproduced and sometimes transformed by human agency.

Reed (1997) outlines the aim of critical realism, which:

*"...consists of identifying underlying 'generative mechanisms' designating the 'causal powers' of structures as they work themselves through as interacting tendencies to produce complexly codetermined outcomes."* (p. 29/30)

The following section will provide an overview of the important facets of critical realist investigation, and aid in understanding the interaction between structure and the contingent environment.

### **3.7 Structures and the Contingent Environment**

A critical realist investigation attempts to identify several factors. These factors include structures, and the internal and external contingent environments that determine outcomes.

Important factors in Sayer's (1984) work are the distinctions he makes between internal and external relations, necessary causal powers, and external and internal contingent conditions.

**Internal Relationship:** The relationship here is internal because the two objects are interdependent and they are definitely related. This is essentially a relationship where what an object is depends on the other object in the relationship. Sayer (1984) uses the example of a slave and master, or a landlord and tenant, where a slave would not be a slave without a master (and vice versa) or a landlord would not be a landlord without a tenant (and vice versa). Examples abound such as husband and wife, teacher and student or in the current study here, manufacturers and customers.

**External Relationship:** In this case, the relationship is contingent, in the sense there may be a relationship. The example used by Sayer (1984) is the relationship between soil and man where one can exist without the other and the relationship is external. They may interact in certain contingent situations. The relationship is external if an object does not need the other object to exist.

Necessary causal powers are latent powers due to position within a structure. These powers will come into action in certain (contingent) conditions, and are realised through mechanisms and events. The example used is between managers and workers. A manager

has the necessary causal power to fire workers, and the workers have the necessary causal power to go on strike. However, these eventualities will not occur without certain contingent conditions in place. In the current study, an example of necessary causal powers would be between producers and foreign customers, where one has the power to export and the other has the power to import but the interaction will only occur under certain contingent conditions.

Dunham *et al.* (1996) in their study of demand for producer services from a critical realist viewpoint, expand on two sets of necessary causal powers/liabilities at play within the process. Firstly, there are Personal Causal Powers/Liabilities, which are governed by the individual's personal belief system. The individual has the power to act in certain ways that will be guided by his own belief system. Dunham *et al.* (1996) gives an example of a liability as a tendency to follow popular opinion.

The second set of causal powers/liabilities is that which is attached to the individual's position within the structure, termed emergent causal powers and liabilities. The accepted way of acting from within the relevant structure will influence the way the decision-maker acts. This is the causal influence exerted from structure.

The decision-makers, because of their position within the structure will possess these powers/liabilities, hence they are emergent, and will also have certain necessary relationships because of their position. For example, the lecturer has a necessary relationship with the student, because of being a lecturer. This relationship is governed by the structure of teacher-student relations. Although the lecturer operates within this structure, the content and style of lecturing will not be predetermined. It will be governed by the lecturer's own personal system of beliefs. How a subject is taught will be the outcome of the contingent circumstances surrounding the discipline.

This contingent environment is both internal and external. The internal contingent environment will stem from, still using the lecturer/student relationship, perhaps the previous experience of the student (year of study), and the nature of the educational institution. The external contingent environment will encompass the academic climate and the general economic environment, i.e. government spending on education. These factors will not only influence what is taught, but how it is taught, and to whom it is taught.

Dunham *et al.* (1996) identifies several structures, including the powers and liabilities of local employers' associations. The structures were shown to provide different outcomes, dependent on the contingent environment. Dunham *et al.*'s (1996) conceptual framework

is shown below in Figure 4. This framework informed the current research and forms the basis of the conceptual framework utilised here. This framework is discussed in the next chapter.

Dunham *et al.* (1996) arrive at three conclusions from their study:

- Two or more mechanisms can be at work at any point in time
- Reactions to the same stimuli can be different as well as the same
- Same actions can result from different stimuli

Critical realism is therefore seeking to identify the relevant structures to any action, the necessary causal powers/liabilities, due to position within the structure, and the relevant contingent conditions that have led to any resultant action. More specifically, critical realism is used to identify governing structures and the conditions that facilitate or transform activities of interest, the contingent environment shown in Figure 4. There are different levels of interest for critical realist investigation, which will therefore have implications for methodology. These implications are briefly discussed below and expanded on in the following chapter.

### **3.8 Implications for Methodology**

*“Methods must be appropriate to the nature of the object we study and the purpose and expectations of our inquiry...” (Sayer, 1992: p.4)*

This is the primary reason for the adoption of a critical realist framework and the use of a two-pronged or mixed method approach to the current study. This is because the aim here is to understand the effect the external and internal contingent environments have on the level of internationalisation in the SME, as they interact with underlying structures. The use of quantitative methods alone will not allow for a robust understanding of these differing environments.

Critical realism provides a framework to identify these different levels society operates at by identifying:

*“(a) Pre-existent structures as generative mechanisms, (b) their interplay with other objects possessing causal powers and liabilities proper to them in what is a stratified world, and (c) non-predictable but nonetheless explicable outcomes arising from*



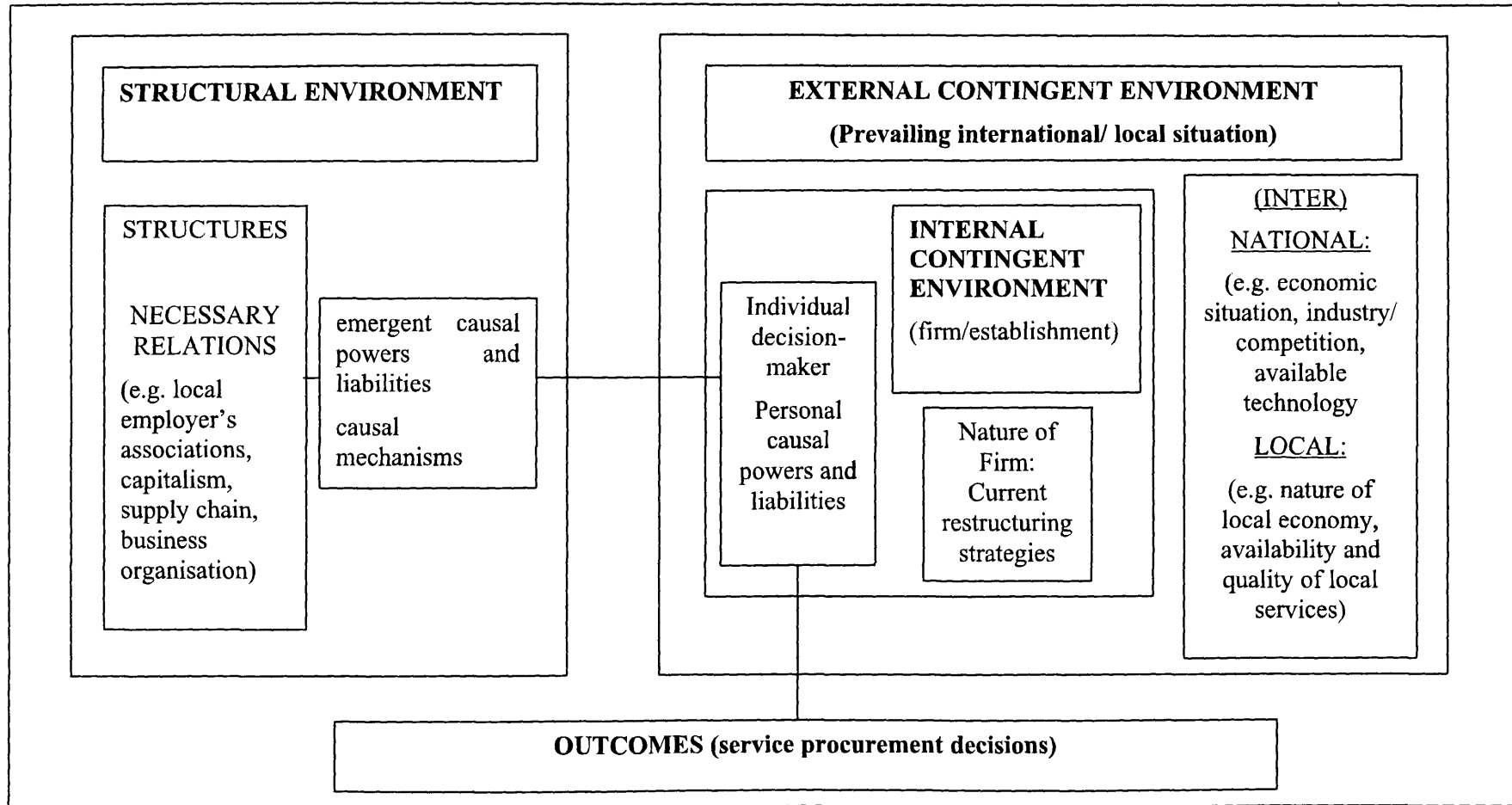
*interactions between the above, which take place in the open system that is society.”*  
(Archer, 1995: p.159)

These structures and their interaction with the contingent environments will be investigated by the use of both quantitative and qualitative methods. A questionnaire survey of East Midland SMEs and secondary data analysis is used to provide a picture of the relevant external contingent environment as well as to provide insights into the internal contingent environment, i.e. previous international experience of decision-makers. Although critical realism is anti-positivist, it is, however, not anti-quantification in this sense. What critical realism objects to is the manner in which positivism uses quantification to infer causation and the level of determinism inherent in this approach.

Secondly, a qualitative approach is taken, where in-depth case studies are utilised to investigate the internal contingent environment in greater depth and extract from this the effect of underlying structures.

The use of such a mixed approach is also seen in other works, for example, Reicher & Emler (1986), where an initial quantitative survey was used to identify relevant comparison groups for subsequent qualitative interviews. This mixed method approach is described in greater depth in the following chapter.

**Figure 4: Dunham *et al.*'s (1996) Conceptual Framework for Manufacturing-Service Linkages: A Realist Approach**



### 3.9 Criticisms of Critical Realism

Realism has been criticised on many fronts, especially by the proponents of the philosophies it tries to debase (Saunders & Williams, 1986; Allen, 1983). In the main, the criticisms stem from its lack of identity, trying to be all things to all people (Cloke *et al.*, 1991). In place of this eclecticism, Sayer (1989) prefers to call for plurality, and to draw on several theories to inform and enhance the realist project. By following this path, Sayer believes that researchers would be better able to understand the many facets of the objects of study.

Realism is also criticised in its use of extensive research methods. Because extensive research methods are used in positivism, realism's critique of positivism seems baseless. It is not these methods on a whole that are criticised by realists, it is their broad, solitary, unquestioned application to objects of study that require deeper investigation. Extensive research methods are but one tool in a realist's arsenal, it is, however, the only one in a positivist's.

The difference between critical realism's and positivism's use of quantification is that critical realists take a more subjective approach to the interpretation of quantitative results. In essence, the difference is between the reliance and meaning attached to results. In critical realism, results of quantitative analysis are considered to show trends or tendencies. To a positivist, these results are used to infer causation.

In support of the use of quantification here, Bryman (1988), one of the leading commentators on research methods, states that:

*"The distinction between qualitative and quantitative research is really a technical matter whereby the choice between them is to do with their suitability in answering particular research questions." (p.108-109)*

Quantification is used here to answer the research questions that relate to identifying the general environment and tendencies within SMEs in the East Midland region of the UK, not to infer causality through the analysis of only observable (surface) occurrences.

In addition to this, Hammersley (1993) recommends something similar, where it is believed that:

*"The researcher should always bear in mind that methods are not so much valid in and of themselves, but rather will be more or less useful for particular research purposes." (p.17)*

This is supported by the observation that the exclusive use of quantitative or qualitative methods are rarely seen (Hammersley, 1993). Overall, these observations have wide-ranging implications for research in general. For as Hammersley (1993) also notes, viewing qualitative and quantitative methods as from different '*incommensurable paradigms*' will preclude the use of mixed methods, an approach that is believed to substantially strengthen research in general.

In relating these issues directly to critical realism, and the manner in which such an anti-positivist approach can allow quantification, Sayer (1984) discusses at length the issue of method. As Cloke *et al* (1991) note from Sayer's work:

*"The realist terminology for the empirical study of contingent relations is concrete research. Research of this kind is required in order to discover the actual contingent conditions under which the causal mechanisms we are interested in are triggered."*(p.148)

Concrete (or empirical) research within critical realism seeks to understand events, whereas positivist research attempts to attach a level of causality to observable events through the discovery of correlations and regularities at this level. In the case of positivism therefore, "...*pattern and regularity are the guiding indicators of causality*" (Cloke *et al*, 1991: p.156). For critical realism, causes are not associated with surface appearances, they are embedded in mechanisms within deep structures (Holt-Jensen, 1988).

In support, Sayer (1984) believes that there should be a balance between the use of these different research approaches, and indeed, in the use of concrete research, he openly advocates the use of both intensive and extensive methods as utilised in the current research. This belief is grounded in his observation that there are several misconceptions and problems within different research types, which he categorises as:

- 1) Over-extended abstract research: where empirical research is not utilised to understand relevant contingencies
- 2) Over-dominant abstract research: where abstract theories pre-empt aspects of the concrete
- 3) Over-extended concrete research: that is over-generalisation
- 4) Over-dominant concrete research: where unique findings are given prominence over the contingent circumstances that have brought them about

In order to alleviate these problems, an approach is needed that can find a balance between such normally dichotomous approaches.

This qualitative/quantitative problem relates directly to another criticism of realism, noted from reviewing critical realist works, where there is the lack of an explicit discussion of the balance of methods of analysis that should be used, the balance between intensive and extensive method. This is perhaps an advantage of the critical realist framework as it allows the researcher to interpret the philosophy in his own manner. It, however, leaves realist practitioners open to criticism for using fragmented approaches, and lacking a core. What is believed, however, is that the method of approach should suit the object of study and the research questions being addressed, as discussed above.

Other criticisms of a critical realist approach are that the approach is non-predictive and does not provide generalisations. In addition to this, the large role played by the researcher in generating conclusions introduces an amount of subjectivity into the research, which is also criticised by the opponents of a critical realist approach. However, the aim of critical realist research is not to provide prediction or generalisation, but to enable the researcher to provide understanding of a certain phenomenon that has occurred, not just explain what has occurred.

### **3.10 Summary**

Because of the beliefs surrounding this research, and concern about the interrelationship between structure and agency, an explicit theoretical framework will enable the formation of an appropriate methodology. In this research, it is proposed that SMEs have unique characteristics and hence unique attitudes and perceptions of the marketplace. Recognition that subjects of analysis are real objects with their own perceptions, attitudes and tendencies, suggest that these objects will need detailed study.

A critical realist framework attempts to understand phenomena, not provide explanation, prediction or generalisations as with positivism. This is because understanding has a greater appreciation of intentionality, as discussed above. This critical realist framework allows for the identification of the interaction that structure has with the external and internal contingent environments that lead to the differing internationalisation levels seen. Because there is a distinction between structure and agency, understanding the effects at these differing levels is important. Critical realism provides a framework with which to understand and appreciate these different levels. A critical realist approach seeks to

understand *why* an event has occurred. From the framework provided here, the influences on this outcome will stem from the interplay the external and internal contingent environments have with underlying structures.

The outcome here is the level of internationalisation of the firm. The external contingent environment will encompass the prevailing economic climate, both nationally and internationally, relevant industry issues, the competitive market situation, and various technological issues. The internal contingent environment will include the nature of the firm, the characteristics and beliefs of the decision-makers, and the subsequent business strategies involved. The underlying structures of importance here are believed to revolve around the powers and liabilities inherent in the capitalist mode of production and the supply chain. The following chapter will use the discussion above to apply an explicit methodology to the current study.

**CHAPTER 4: METHODOLOGICAL OVERVIEW**

#### **4.1 Introduction**

The current study is interested in understanding why firms experience different internationalisation levels. A critical realist approach is adopted to achieve this. The rationale for the application of a critical realist framework for the current study centres around the facility of this framework in identifying the interaction of structures and the external and internal contingent environments in providing the outcomes seen. These areas are represented in the conceptual framework adopted and outlined in Figure 5 below. This framework is chosen because of the shortcomings of a positivist approach in achieving the primary aim of this research. The aim is to provide an *understanding* of the differing internationalisation levels seen in these East Midland SMEs, not prediction or generalisation.

A critical realist approach attempts to understand phenomena. The stage models of the Uppsala School do not provide a framework to enable this. However, by investigating the interplay between underlying structures and the contingent environments understanding can be achieved. This is what a critical realist framework allows for.

Critical realism uses two approaches to research phenomena, extensive and intensive research. These two approaches are outlined below in relation to the role they play in investigating the external and internal contingent environments that interact with underlying structures to produce the outcomes seen.

Extensive research uses quantitative methods to provide descriptive accounts of the external contingent environment, not provide explanation, prediction or assign causality as in positivism's use of quantification. Intensive research methods use more qualitative approaches to understand phenomena in context, i.e. the case studies. These approaches will therefore use different tools, ask different questions, and require different techniques.

Extensive approaches will attempt to identify any tendencies and provide description. By the use of a questionnaire survey and secondary data analysis in this study, the main elements of the external contingent environment are highlighted.

Intensive research attempts to understand causal processes operating in a limited number of cases. By the use of qualitative methods, and structured and unstructured interviews, each individual object is unpacked and examined in its specific context. Intensive research draws on the results of the extensive research in establishing the relationship between structures and both contingent environments.



In the export research literature, the preferred method of data gathering has been mail surveys as used here. Low response rates have, however, resulted in small sample sizes, which can inhibit statistical generalisation. The method here will draw on the results of a survey to identify the major issues for East Midland SMEs, and investigate the SME at a deeper level. This is another level where causality can be understood in more contextual depth. The current study does not object to the use of statistical methods, just the single-minded reliance on their results to infer causality or provide generalisations or predictions.

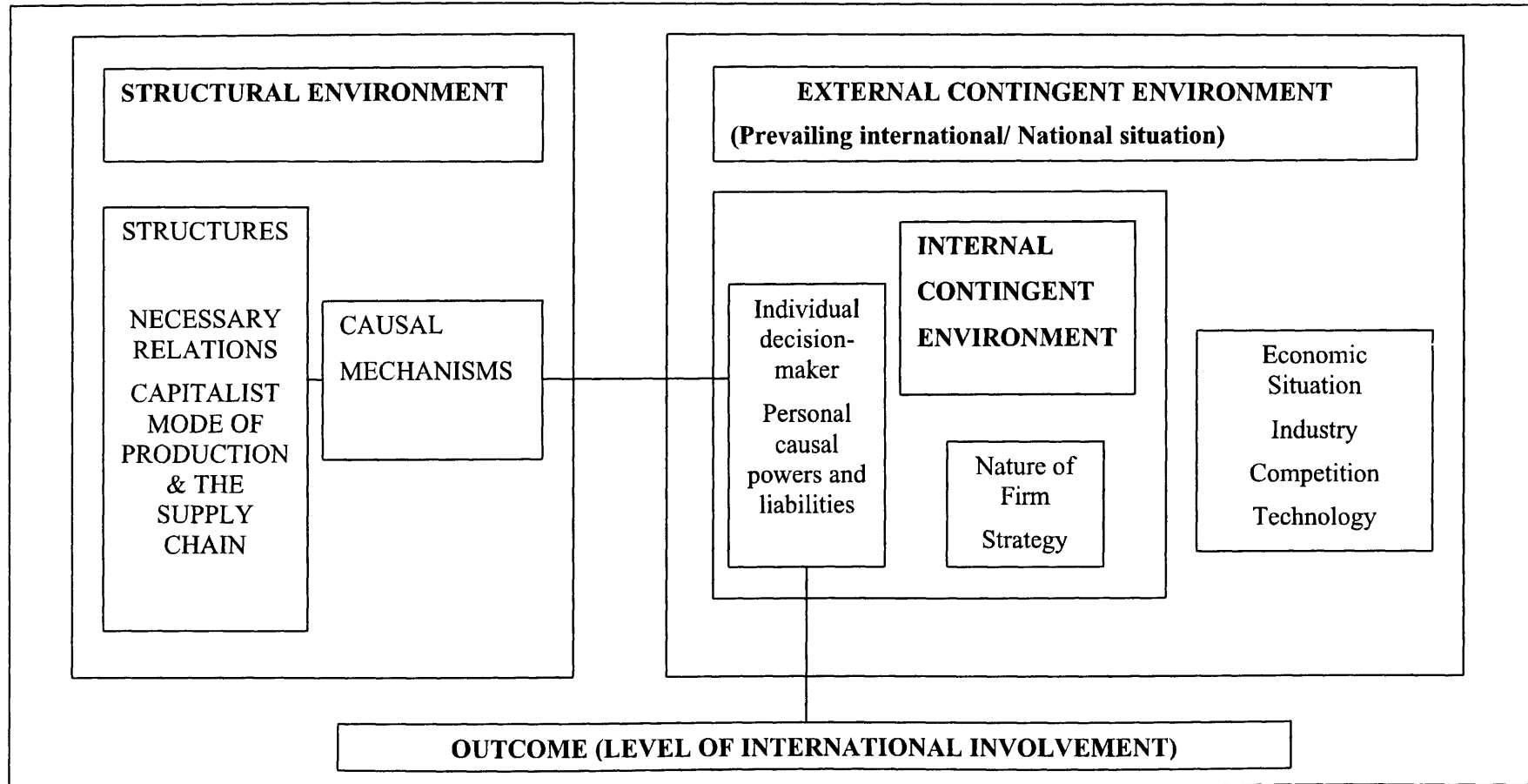
To explain these approaches this chapter is organised as follows. The extensive and intensive methods employed are described with reference to the underlying conceptual framework of critical realism. Following this is a more detailed description of the data collection and data analysis techniques used, including details of selection criteria for the survey, databases used and the construction of the questionnaire and the case studies.

#### **4.2 Extensive and Intensive Research: Investigating the Contingent Environments**

The methodology used draws on the main principles of a critical realist framework. The current research is in line with a critical realist method as it uses both intensive and extensive research formats. Although the use of such approaches is not unique to a critical realist approach, it is the fashion in which the methods are utilised to provide insights into causation that makes their application here a critical realist one. Table 6 below shows the distinction between intensive and extensive methods applied here, as adapted from Sayer (1992).

Extensive and intensive research methods are used here to provide insights into the external and internal contingent environments respectively. The questionnaire survey and secondary data analysis provide a description of the general environment and conditions that East Midland SMEs operate within, helping to provide an understanding of the role of the external contingent environment. The survey also works to identify the general tendencies and attributes present within these organisations, i.e. a tendency for younger firms to be involved in international markets earlier in their life is identified from the survey. A critical realist approach therefore, having identified this tendency, then seeks to understand the reasons for this occurrence, i.e. what are the relevant structures and contingent environmental conditions that have led to this occurrence.

**Figure 5: A Conceptual Framework for Understanding the Internationalisation of the East Midland SME: A Critical Realist Approach**



**Table 6: Summary of Intensive and Extensive Methods Used in Current Research**

	<b>Intensive</b>	<b>Extensive</b>
<b>Research Question</b>	How does the export process work in a particular case? Why do internationalisation levels differ? These questions are related back to the original research aims as outlined in Chapter 1.	What are the common attributes/tendencies of East Midland SMEs? This is to establish the main attributes and issues affecting the internationalisation of the SMEs in the region as outlined in the aims of the research in Chapter 1.
<b>Relations</b>	Relations of connection	Formal relations of similarity
<b>Types of Group</b>	Causal Groups	Taxonomic groups
<b>Types of Account</b>	Causal explanations of the exporting process	Descriptive generalisations, lacks understanding of causal factors.
<b>Typical Methods</b>	Study of individual exporters in context, including interviews, interaction and qualitative analysis.	Large Scale surveys, formal questionnaires, statistical analysis.
<b>Limitations</b>	“Actual concrete patterns and contingent relations are unlikely to be ‘representative’, ‘average’, or generalizable (sic). Necessary relations discovered will exist wherever their relata are present, e.g. causal powers of objects are generalizable (sic) to other contexts as they are necessary features of these objects.” (Sayer, 1992: p.243)	“Although representative of a whole population, they are unlikely to be generalizable (sic) to other populations at different times and places. Problem of ecological fallacy in making inferences about individuals. Limited explanatory power.” (Sayer, 1992: p.243)
<b>Appropriate Tests</b>	Corroboration	Replication

Adapted from Sayer (1992)

Extensive research studies large numbers of subjects and restricts the number of properties used to define them. Cloke *et al.* (1991) propose that this approach:

*“... offers some representativeness of wider society, but is liable to exclude essential properties capable of influencing the behaviour of individual people”.* (p.156)

Extensive research is therefore used to provide a general understanding of the characteristics of a population. With the use of results from large-scale questionnaires, descriptive and inferential statistics can be used to show any regularity. These methods are used on taxonomic groups, groups that share formal attributes but do not necessarily need to interact with one another. In extensive research:

*"...explanatory power is sacrificed so that representativeness may be achieved." (Cloke et al., 1991: p.156)*

By the use of the questionnaire survey and the review of other research, the main issues/themes can be identified, for example the role of previous international experience, age of the firm and perception of competition. This will guide the direction the case study research follows by providing pointers as to the main areas for deeper investigation.

Intensive research investigates a large number of properties on a small number of subjects. This approach will provide insights to the internal contingent environment.

However this research method will lack representativeness, which may lead to the over extension of conclusions. Conclusions should also, however, not be under-extended (Cloke et al., 1991). In addition to this an intensive approach:

*"...may ignore many significant parts of the system, as well as many significant individuals." (Cloke et al., 1991:p.156)*

The essential aim here is, therefore, to identify relevant structures and the related contingent environments that lead to an actual event. The objects of interest here are the firm and the decision-makers. If the outcomes of decisions are to be understood, then the firm and the decision-maker will need to be understood. This is the reason for the use of the case study approach.

This two-pronged approach has been used elsewhere by realist researchers in the study of migration (Findlay & Li, 1999), and population geography (Winchester, 1999), where they term their approach as mixed method. Winchester (1999) expresses views on the use of these mixed methods:

*"The questionnaires provided a range of information about the characteristics of this group... but it was the interviews which provided astonishing depth on the causes... and other structures which sustain social processes." (p.60)*

The deeper causal understanding provided by qualitative research, as expressed by Winchester (1999), serves to underline the reason for a greater reliance on these techniques by critical realists. This is not to negate the role of quantitative research, merely recognition that its power to facilitate causal understanding is limited in fulfilling the goals of critical realist researchers. Table 7 outlines the way critical realism is applied in the current study.

**Table 7: Methodology Applied**

	<b>Extensive Method</b>	<b>Intensive Method</b>
<b>External Contingent Environment</b>	Review of Relevant Research Questionnaire Survey Secondary Data Analysis	
<b>Internal Contingent Environment</b>		Case Studies Structured and Unstructured Interviews
<b>Structures</b>	Draw on information from both methods to provide insights into the structures of importance	
<b>Understanding consists of identifying how relevant structures interact with the external and internal contingent environments to produce the outcomes seen</b>		

**4.2.1 Extensive Research Method**

The relevant research questions here from Table 6 attempt to describe the main features of East Midland SMEs. This taxonomic group, East Midland SMEs, in critical realism terms, can be described as a chaotic conception, as it can be argued that as a category it is lacking any intrinsic structure or causal power. However, this does not negate the current research as a critical realist study, for as Sayer (1992) states:

*“It is not always possible or desirable to reduce the object so that it is less chaotic, because it may nevertheless be of interest as a whole, perhaps because, chaotic or not, it is to these objects that people respond. For example, governments respond to ‘regional development’ even though regions are chaotic conceptions.” (p.150)*

Sayer (1992) also states realism’s methods “...must be appropriate to the nature of the object we study and the purpose and expectations of our inquiry...”(p.4). The current study’s purpose in relation to the research aims is to establish the common attributes, tendencies, and issues affecting East Midland SMEs. The most appropriate method here is therefore the use of extensive method in the form of a questionnaire survey of the relevant population. Accompanying the survey is the use of a secondary database supplied by Dunn & Bradstreet (1999), that draws on a sample of firms from Companies House that includes data for a number of limited companies in England and Wales. Companies excluded from the database include sole traders and partnerships, which may be a weakness of this database because these sole traders and partnerships may also be classed

as SMEs. This database may therefore be ignoring a large proportion of the population that this study is interested in.

Non-exporting companies were included in the survey in order to establish whether there were any significant differences between companies that export and companies that did not. As extensive method, the survey acts to answer general questions concerning whether there exists any general patterns or properties in the general population.

By the use of the questionnaire survey, and with reference to the secondary database, the main characteristics and tendencies (if any) of East Midland SMEs can be attained, providing a descriptive account of the “events” occurring. This is the initial step in achieving the aims of the current research, establishing the characteristics of the sample.

The survey provides a basis from which to investigate the causal factors of SME internationalisation in greater depth by providing pointers to the areas for deeper investigation. In addition to this, the survey also acts as a means from which to select the case study companies by including a question in the survey asking whether the respondent would be willing to participate in further in-depth research, the case study element of the current research. The details of selection criteria and the construction of the questionnaire and case studies are described in later sections.

#### **4.2.2 Intensive Research Method**

The case study approach follows on from the questionnaire survey. The case study technique is described in greater depth below and encompasses the use of several data sources from which theory can be supported and enhanced.

Relating to the research aims and research questions the most appropriate form of enquiry was believed to be a case study approach, as this method provides a picture of the ‘object’ in context and is able to answer the “how?” and “why?” questions of interest.

From studying these firms in depth, a clearer picture of the factors underlying the internationalisation process can be presented. The role of managerial character, organisational character and the general economic environment in facilitating internationalisation will be understood at the level of the decision-maker. Barriers and stimulants to internationalisation, and factors underlying market and modal selection will also be highlighted. By the use of this case study approach, the structures of interest, the relations of importance and the relevant contingent environment can be better understood.

The case study approach is described by Yin (1989) as a method that investigates phenomena in their “real” context. This is especially where the boundaries between context and phenomena are unclear. The context here is the firm and its internal and external environment, and the phenomenon is its exporting behaviour.

As shown below, the case study approach uses multiple sources, and recently the use of multiple cases has become popular. The multiple case approach facilitates the study of common patterns and theory, and avoids random associations. As Chetty (1996) states, “theoretical and conceptual frameworks are inadequate” in understanding the internationalisation of the SME. When “how” and “why” questions are being asked, case studies are more suitable than large surveys, as they understand events and establish the validity and causal links of relevant structures and relations. As the research questions are of this “how” and “why?” form, the case study approach is applicable here, as opposed to other forms of qualitative enquiry, i.e. interviews alone. By the use of multiple sources of evidence, a wider range of historical, attitudinal and other contextual issues can be investigated. This is not possible with survey research within a critical realist framework.

The details of how the case study method is applied here are expanded on below. Overall, the case study approach provides a more in-depth understanding of process and causality than does large-scale mail surveys or interviews alone. The multiple perspectives used here will allow a more thorough examination of the overall process and contribute to theory. The case study approach also precludes the usual problems of cross-industry bias, small sample sizes and the normal resistance to surveys.

As the case study approach is not unique to critical realism, and because some of the techniques proposed by Yin (1989) to be an integral part of the case study approach go against a realist philosophy, certain modifications to the process were needed. For example, Yin recommends testing *propositions* about why a certain event has occurred against rival explanations and using this to determine the causal factors of any phenomena. This is however akin to experimental testing and generalisation, as used in positivist works, which acts against a realist philosophy and is therefore not an approach used here.

Despite the advantage of the case study approach to assist understanding, its use is only a recent trend in internationalisation research where several recent studies have noted the benefit of using the case study approach to enable theory-building and a deeper understanding of the internationalisation process of the SME. These case studies have ranged from studies of specific industries as Smallbone *et al.*'s (1996) study of the UK

food processing sector and Berra *et al.*'s (1995) study of the Italian clothing industry, to the more firm-specific studies of Bell (1995), Bell *et al.* (1998), Chetty & Hamilton (1996), Chetty (1996), and Chetty & Caughey (1994) as highlighted in Table 9.

The original case study work on the internationalisation of the firm came from the work of the Uppsala School in the late 1970s (Johanson & Weidersheim-Paul, 1975; Johanson & Valne, 1977). Although many studies that draw their inspiration from the Uppsala School do not use the case study approach, these original case studies did provide some valuable preliminary insights into the internationalisation of the firm. These original works drew on four case studies of large Swedish firms and their stage movement into international markets.

The attributes of the case study approach stem mainly from the variety of sources used for case study research, both qualitative and quantitative, and primary and secondary. These multiple sources include:

- Company Documentation;
- Secondary Documentation;
- Archival records;
- Interviews;
- Direct observation;
- Participant observation;
- Physical artefacts.

The details of these sources of evidence are expanded on below in Table 8.



**Table 8: Sources of evidence used.**

<b>Sources of Evidence</b>	<b>Sources of Data</b>
Documentation	Company Reports Job Descriptions of relevant personnel Managerial Curriculum Vitae (CV) CVs of other relevant personnel Company Policies Brochures Export Procedure Protocol (if available) Any relevant mass media references
Archival Records	Previous Company Reports & Trends Correspondence with original clientele and suppliers Details of other ventures Personal managerial records Details of site location
Interviews	Open-ended and targeted interviews with relevant personnel Follow-up telephone interviews to clarify any unclear points or missing data
Direct Observation	Manufacturing operations Relevant meetings
Participant Observation	Provide input into meetings if suitable
Physical Artefacts	Products

In several academic arenas that use the case study approach, the core input comes from the work of Yin (1989; 1994). Yin (1989) provides a strong argument for the use of the case study to build theory and provide a deeper understanding of causality. The case study approach has however come under criticism for its lack of potential for scientific generalisation, a proposition refuted by Yin (1989) who asserts that there is generalisability- generalisation to theory rather than to populations. The role of the case study is therefore to generalise/expand theory rather than lending itself to statistical

generalisation. Although the case study may have its weaknesses, these are strongly outweighed by its strengths in theory-building (Yin, 1989; Chetty, 1996).

The main reasons for the use of the case study approach here is the lack of theory on the internationalisation of the SME and several limitations in the internationalisation research arena. Research has tended to be mainly exploratory and quantitative. This, and the reliance on the “stage” approaches, cross-sectional surveys, and single industry studies, has severely hampered the theory-building potential of internationalisation research. Aaby & Slater (1989) reiterate this point:

*“Given the quantity of published research on export practice it is surprising that so few solid conclusions are available.” (p.23)*

Case study researchers have stressed that in-depth studies are needed in internationalisation research, which is why the current study seeks to provide understanding of the internationalisation process, especially the relationship between triggers to internationalise, internationalisation behaviour, and the effects on performance. Causality at the level of structures and the contingent environment remains a mystery, and case studies help solve this problem and increase understanding of the decision-making process and its effects on the internationalisation behaviour of the firm.

The case study approach has been used in many different forms in internationalisation research. Several studies have either used industrial sectors as a case, or the individual firm as a case. The firm is considered the case in this study, and a multi-case approach will be taken. Table 9 gives a brief description of the case studies used in previous research.

The approach here uses the firm as the case, separated into two categories to enable literal and theoretical replication<sup>10</sup> as used by Chetty & Hamilton (1996), Bell *et al.* (1998), and Chetty (1996). The two categories used here include high technology firms and low technology firms to demonstrate the benefits of the case study approach, and the accompanying theoretical framework, in achieving an understanding of the structures and relations that cause and effect SME internationalisation.

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<sup>10</sup> If cases differ significantly and expected values are realised for expected reasons then theoretical replication has been achieved. Literal replication can be achieved if similar cases provide similar results.

**Table 9: A brief description of previous Case Study Research.**

<b>Author(s)</b>	<b>Main Characteristics</b>
Johanson & Weidersheim-Paul (1975)	Original development of stage models. Uses four cases of large Swedish companies to investigate their internationalisation behaviour.
Caughey & Chetty (1994)	Investigates the pre-export behaviour of six New Zealand SMEs to identify the management processes at work.
Smallbone, Cumbers & Leigh (1996)	Uses the UK food-processing sector as a case to assess the effect of the formation of the EU and the related changes in regulations and standards.
Bell (1995)	Uses small computer firms in a multiple country case study (Finland, Ireland, Norway) to challenge the stage theories developed in the 1970s.
Chetty & Hamilton (1996)	Uses 12 firms in two industries to contrast between and within industries the actions of owner-managers in the exporting process.
Chetty (1996)	Uses 12 firms in 2 different sectors to provide support for the case study approach as a viable methodology.
Bell, Crick & Young (1998)	30 firms are used in the case study, based in 3 separate UK regions to enable understanding of pattern, process and pace of internationalisation from a holistic perspective.
Berra, Piatti & Vitali (1995)	The case here is the Italian clothing industry to facilitate an understanding of the internationalisation of the sector.

The choice of these groupings is because of recent research which proposes that companies operating in these sectors will follow different internationalisation paths (Bell *et al.*, 1998). This trend has been attributed to the greater proprietary knowledge involved in high technology industries, and the level of customisation required by the end-user being greater in high technology industries. By the use of the case study approach the causal factors of this tendency can be investigated in greater depth.

#### **4.2.3 Main Case Study Questions and Potential Sources**

From previous research and the results of the questionnaire survey, there are a variety of areas to be investigated. These areas can be separated into two divisions, the internal contingent environment and external contingent environment. A more detailed description is shown in Table 10.

**Table 10: A description of Areas for Investigation**

	<b>Main Areas for Investigation</b>
External Contingent Environment	Social Environment
	Local Industry
	Local Economy
	National Industry
	National Economy
	Industry Lead Markets
	International Economy
Internal Contingent Environment	Individual Personnel Character
	Departmental Form
	Firm Characteristics

The key questions to be investigated revolve around the relationships within and between these levels. These questions relate to the role played by factors facilitating internationalisation, the initial stimulus to internationalisation, the role of any barriers, and the factors underlying any modal or market choice.

The key questions being asked stem from areas of interest identified from previous research. The relevant questions are:

- What is the influence of previous international experience of key players on the internationalisation of the firm?
- What is the influence of personnel character (belief systems, age, experience, and education) on departmental form and firm internationalisation?
- What is the role played by firm character (size, technological orientation, ownership character, location, and age) on the internationalisation process?
- What is the role of the local society/local economy/local industry/national economy/national industry/lead markets/international economy on the internationalisation of the firm?

At the firm level there will be a variety of influences on any outcome. These can be related to both the internal and external factors listed above. The rest of this section will

describe the data sources used to investigate these areas. The internal hierarchy will be dealt with first.

**The Personal Level:** To investigate the role of personal character there are two main approaches. Firstly, a descriptive approach is needed to establish the main elements of each individual's personality. Secondly, an explanatory approach, drawing on the descriptive approach, will enable a deeper understanding of the individual's role in the internationalisation process. To attain an adequate description of each key individual in each firm, the case study will draw on the employment and educational history of the relevant personnel and the use of targeted and open-ended interviews.

**The Departmental Level:** By the use of the interviews, the identification of internal relationships, and the company documentation, departmental character can be established. By a reference to theory and a cross-reference to the personal level any conclusions and results can be supported. This level will enable an understanding of the influence of interpersonal relationships within relevant departments and the role they play in the internationalisation process.

**The Firm Level:** The responses to the original questionnaire, documentation provided from the firm, archival records and other secondary data sources enable a profile of the firm to be constructed. This data will be used in conjunction with the personal level and departmental level results to enable a reinforcement of any conclusions reached. The results obtained here will provide insights into the role played by the environment internal to the firm in the internationalisation process.

This level of analysis relates back to the critical realist framework by its provision of an understanding of the internal contingent environment and provides an insight into how the structures of interest affect the perceptions and actions of the individuals involved. The role of the external hierarchy is discussed below.

**Social Environment:** The social environment will comprise two levels, the local social environment and the wider national environment. The local social environment will be made up of the local relationships built by the firm and its employees. The effect of this will be investigated through the interviews, various documentation concerning the locality, newspaper articles concerning local business and relationships with local authorities (Chambers of Commerce, Councils and Development bodies). The wider social environment will be investigated with reference to the interviews and documentation of wider national and international relationships and trends.

Local Industry: The role of local industry will again be investigated through interviews and documentation on the area of interest as undertaken by Dunham *et al.* (1996) in their study of manufacturers in Coventry, UK. The industries included will not only be complementary to the firm under investigation, but will encompass the influence of local industry in general. These influences may stem from complementary training of the labour force, provision of economies of scale, level of international orientation, and provision of distribution channels.

Local Economy: An understanding of the perception of the local economy will be provided by the study of the firm itself, as above, and data from local council publications and national reports will enable validation of any perceptions.

National Industry: Both firm level and industry level data will establish the role played by the situation within the industry nationally. Various governmental and industry based data will facilitate validation of firm level perceptions, and provide a basis for explanatory investigation.

National Economy: Again firm level perceptions and secondary data will be used as above to establish the role played by the condition of the national economy on the internationalisation process.

Industry Lead Markets: Firm level perceptions of lead markets and international industry reports will enable an understanding of the role of lead markets.

International Economy: The perception of the firm and the state of the international economy will be used to provide an understanding of the role of the international market on the international behaviour of SMEs.

### **4.3 Data Collection: Secondary Data**

The secondary data used in the research originated from OneSource UK Private Database (Dunn & Bradstreet, 1999), which contains data on a sample of 110,000 limited companies in the UK. The database originates from Companies House and excludes partnerships and sole traders, but includes public limited companies.

The criteria used for the search followed primarily the European Union definition of SMEs and several other criteria deemed suitable for the study. The criteria are as follows for the selected companies:

- The company must be located in the East Midlands (Northamptonshire, Leicestershire, Nottinghamshire, Derbyshire and Lincolnshire).
- The company should have no more than 250 employees.
- The company is **not** part of the service sector.
- The company is not a subsidiary of another company<sup>11</sup>.
- By the EU definition for SMEs, turnover must be less than £32 million (ECU 40 million at time of initial survey).

Using these selection criteria, 474 companies were selected from the database. The questionnaire was constructed with reference to important areas for investigation from the literature reviewed in Chapter 2 in order to determine the main characteristics of the group being investigated. The areas deemed important are as follows:

- basic company information including year established and recent trends in sales, profits and other variables
- basic information on employees and directors including numbers and skills
- product information
- competition issues including location of main competitors and the level of competition in the industry
- information on levels of technology used and whether customised or not
- customer and supplier information including location
- exporting and importing information including origin/destination and triggers of the process.

A copy of the questionnaire is provided in the Appendix.

Both exporters and non-exporters were deemed important for inclusion because it was believed that this would highlight any unique attributes that exporters possessed that non-exporters did not. The covering letter that was sent with the survey (see Appendix 1) did not make any reference to exporting, just that the study had an interest in SME's behaviour

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<sup>11</sup> Only Non-Subsidiaries were deemed desirable for the study, as the directors in this form of company will hold direct responsibility for any decisions made, and it is the influences (mechanisms, structures and tendencies) on these decisions that are the main concern of this study.

in both domestic and international markets. This was in order not to bias the survey towards exporters, which would alienate non-exporters.

A pilot survey was conducted in June 1997 on 50 companies selected at random from the secondary database and a response rate of 24% was achieved within two weeks. No alteration of the questionnaire was deemed necessary and the full survey was conducted in July 1997 and as reminders sent to the non-respondents from the pilot survey.

Of the 474 companies selected, 171 were actively involved in export markets from the data available. The other companies either did not export or no data on their export values were available. For the 171 exporting companies, export values ranged from £4000 to £14M for the most recent financial year available (1996).

Of those sampled, 115 responses were received, a response rate of 24.3%, which included 81 companies actively involved in export markets. The majority of these companies have been in the East Midlands for more than 10 years, with an average age of 23 years. They are mostly close companies (companies with only a small number of owners/directors), and believed that they operated in a niche market. There was also an even split between high and low technology firms, with the majority being capital intensive. The survey analysis in Chapter 5 draws on primary and secondary data to present and analyse the full character of the group of firms under investigation.

#### **4.4 Data Collection: Primary Data from the Case Studies**

Initially, the pool of firms available for analysis stem from the original questionnaire conducted in the 1997 survey and analysed in Chapter 5. Firms were selected according to the category they fell into, whether high technology or low technology. The criterion used for inclusion into these categories can stem from one of two characteristics, (1) whether the firm uses high (low) technology equipment in the production process, or (2) whether the firm's end product is categorised as a high (low) technology product. The criterion used here is the latter.

A serious matter of concern here is the availability of firms for study and this is noted as a limitation of case study research. In the original questionnaire, the selected companies were asked whether they would be willing to participate in any future, more in-depth, research. Of the 115 respondents to the questionnaire, 33 responded positively to this request. Due to the lag between the receipt of the completed questionnaires and the initiation of the case studies an initial letter to confirm willingness to participate was



deemed necessary. An example of this letter is shown below in the Appendix. This letter was only sent to companies that met the selection criterion of being involved *distinctly* in either a high or low technology industry. The contact process operated as follows.

- selection of all companies that responded positively to a request for further contact
- separation of companies into two groups of high and low technology based on product character (e.g. High technology would consist of such products as pharmaceuticals, precision equipment and computers; low technology products would consist of such products as apparels and furs, leather products, and textiles)
- initial contact with selected companies (contact would be with named respondent)
- upon confirmation of participation, organisation of initial meeting and request for relevant documentation and firm literature (at this stage, a compilation of relevant archival data from secondary sources takes place)

Of the 33 companies that responded positively to participating in further research, only 12 were deemed suitable. Suitability depended on whether the company participated in export markets and whether the firm was distinctly in one of the categories of study, high technology or low technology.

All firms were contacted via letter and upon no response, telephone contact was made. Several of the firms were sent another letter but to different personnel, either because the contact that completed the questionnaire was unable to assist and recommended someone else within the company, or because the contact was away on business or leave. Several of the companies had to be contacted on multiple occasions before assistance was declined (one director's personal assistant said that the director had sent a response in the post. No response was ever received).

Eleven of the firms declined to participate and a replacement firm, that fitted the original selection criterion, was attained through local contacts.

The low technology company that did participate in the case study did not respond to the initial letter, but upon telephone contact the Managing Director immediately confirmed he would assist and arranged a meeting for the earliest convenient time.

The high technology firm in the case study was contacted after a search for another suitable company was undertaken from the original database and through contacts within the local area after it became apparent that potential cases were becoming scarce.

The difficulty encountered in attaining participants is characteristic of the case study process. These difficulties are perhaps the reason that researchers are reluctant to utilise this form of investigation.

Following this initial contact, the case study firms were then investigated via data from the original database, the returned questionnaire, and other secondary sources, to provide a clearer picture of the firms before face-to-face contact was made. This enabled the first contact meeting to be targeted towards the character of the company and the relevant industry.

At the initial meetings, plans for further interviews, and requests for firm specific documentation were made. The data gathered from the case studies are presented in Chapters 6 & 7.

#### **4.5 Extensive Research: Secondary Data Analysis**

Based on reviews of the literature on the internationalisation of the SME, the current study has identified several tendencies which are prevalent in SMEs that are believed to be important in the process. The issues involved are expanded on below.

*Issue 1:* Internationalisation of high technology firms appears to be more the result of the interaction of a series of factors internal to the firm rather than external to the firm (Bell *et al.*, 1998).

*Issue 2:* High technology firms internationalise through an explicit company strategy, subject to internal causal factors such as management character, product character and a proactive nature (Bell, 1995; Bell *et al.*, 1998; O'Farrell *et al.*, 1998).

*Issue 3:* Lower technology firms internationalise in an *ad hoc* manner, more because of chance orders rather than because of an explicit strategy direction (Bell *et al.*, 1998). Low technology firms are more subject to external factors rather than high technology firms (Bell *et al.*, 1998).

*Issue 4:* The character of the management team appears more important than external variables in the internationalisation of the SME. For example, the more internationally experienced the management team from previous employment, the greater the probability of the firm participating in the international market, and the better the perception, the more likely is the firm to participate in the international market (Chetty & Hamilton, 1996).

Because these issues were highlighted during previous research, the questionnaire survey was directed towards investigating these areas. The main modes of analysis of the questionnaire results centre on Chi-squared tests/cross-tabulations and Mann-Whitney U-tests (MW). MW was deemed an appropriate mode of analysis because some of the data gathered had a non-normal distribution. MW copes with non-normal distributions by ranking respondent data and testing for any difference in ranks between two groups to establish whether they are from the same population, that is, instead of testing the non-normal raw data. The tests will be used to compare means and proportions in the analysis of different groupings.

#### **4.6 Intensive Research: Data Analysis of Individual & Cross-Case Reports.**

The case study data was initially used to provide a description of each of the main issues highlighted from the results of the survey and includes two types of reports. The individual case study report will provide descriptive and explanatory results within and between each area, and provide a basis for deeper analysis through a cross-case report to assist in understanding the internationalisation process. For the individual case reports the format is as follows:

- A brief overview of the firm including a business description, location, number of employees, age and other relevant variables<sup>12</sup>
- A description of the main characteristics at the personnel level
- A description of the main characteristics at the relevant departmental level
- Detailed descriptions of the character of the firm, including organisational structure and external relationships
- An explanatory analysis of the interplay between and within the three internal levels
- A description of the local society/local economy/local industry/national economy/national industry/lead markets/international economy
- An explanatory analysis of the interplay between the various external hierarchy levels and the internal firm environment

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<sup>12</sup> Company names have been changed and personnel's identities masked to retain confidentiality.

The cross-case report in Chapter 8 will provide the main focus for analysis. The cross-case report will be structured as follows:

- A description of the external contingent environment
- A description of the internal contingent environment
- A synthesis of these environments with the underlying structures to provide the outcomes seen, extracting from the information gathered the main structures of importance.

The cross case analysis will therefore provide a deeper understanding of the differing internationalisation levels seen in these SMEs.

#### **4.7 Summary**

Critical realist research does not seek to supply prediction or generalisation. It does, however, seek to provide understanding of the reasons for the occurrence of phenomena. The phenomenon the current research is seeking to understand is the differing internationalisation levels seen in East Midland SMEs. Because the areas of interest include the interplay between underlying structures and the external and internal contingent environments, a methodology is adopted to enable their roles to be understood. The methodology includes the use of both extensive and intensive research methods.

More specifically:

*“... the realist model of explanation involves three basic steps, the postulation of a possible mechanism, the attempt to collect evidence for or against its existence, and the elimination of possible alternatives.” (Outhwaite, 1987: p.58)*

This is the path followed here where the mechanisms postulated relate to the capitalist mode of production and the supply chain, and how they interact with the external and internal contingent environment to produce differing internationalisation levels.

The description of the methods used is drawn from the underlying theoretical framework of the research, critical realism. The current research is in line with a critical realist method as it uses both extensive and intensive research formats, i.e. the questionnaire survey and secondary data analysis as extensive method and the case study approach as intensive method.

The questionnaire survey and the secondary data analysis provide a description of the external contingent environment for SMEs. In addition to this, the survey also acts to provide some insights into the internal contingent environment for these SMEs which are subsequently followed up in the case study research.

The case study approach enables the internal contingent environment to be investigated in greater depth. In addition to this, the interplay the internal contingent environment has with the external contingent environment and underlying structures are highlighted. It is at this stage that understanding is achieved. The next chapter analyses the results of the questionnaire survey.

**CHAPTER 5: QUESTIONNAIRE RESULTS FROM EAST MIDLANDS SME  
SURVEY**

## **5.1 The Survey Details**

This chapter will present the main results from the East Midlands SME Questionnaire Survey. Analyses of the population of East Midland SMEs, and the respondent sample are presented below.

This chapter is organised as follows. Firstly, an overview of the main economic variables for the East Midlands Region is reviewed. Following this, the main characteristics of the SMEs in the region, using data gathered from the OneSource database (Dunn & Bradstreet, 1999), are analysed, including industrial structure. This is followed by an analysis of respondents versus the non-respondents in the sample to establish whether there was any respondent bias in completing the questionnaire. The location of respondents is then analysed, followed by a breakdown of industries in the sample. The results of the questionnaire survey are then analysed with reference to the overall character of the sample and also to establish whether there is any difference between exporters and non-exporters in the sample. Exporters from the respondent sample are then analysed in several groupings, small- and medium-sized companies, young and old companies, and high and low technology companies. These group comparisons are used to establish whether there was any significant role played by age, size or technology in the internationalisation of East Midlands SMEs.

As discussed in previous chapters, the survey here acts as a tool by which to identify any salient characteristics in the SME population in the East Midlands. It is not an attempt to identify causal factors, but to act as a guide to the areas for investigation in the case studies that follow. Although a critical realist framework rejects positivist's works, it does not reject quantification as used in this survey analysis. What critical realism rejects is the use of quantitative techniques in the social sciences to identify causal factors. The statistics used here are intended to be descriptive rather than explanatory, highlighting the areas for deeper investigation in the case studies.

## **5.2 Key Variables for the East Midlands Region**

The following tables and commentary provide an overview of the East Midlands as a region of the UK. Key variables are used at a descriptive and comparative level to establish the main statistics concerning the sphere of the research. This will enable a greater contextual understanding of the region. The East Midlands region was chosen as

the sphere for the research due to the base from which the research was conducted, University College Northampton. The size of the sphere was chosen because of the larger sample size it would provide than if Northamptonshire alone were used as the sphere, while still retaining a level of regional identity. Retaining regional identity was believed to be important to attaining a large enough response rate as it was thought respondents would be more willing to participate if they could identify closely with the survey and its potential benefits. A survey of the UK was not deemed suitable due to the logistical constraints in dealing with such a large population survey.

The East Midlands region is made of the following counties:

- Derbyshire
- Leicestershire
- Lincolnshire
- Northamptonshire
- Nottinghamshire

The East Midlands is characterised as one of the fastest growing UK regions in terms of population. This is on the basis of statistics on population growth between 1981 and 1995, which gives the East Midlands a growth rate of approximately 7%, nearly 3% higher than the English average, but 3% less than the South West (SW) (Regional Trends, 1997). In terms of population density, the East Midlands is the second least densely populated region in England, after the SW. A further breakdown of these statistics is seen in Tables 11 and 12.

In terms of population growth in the East Midlands, Northamptonshire and Lincolnshire have the highest growth rates. Nottinghamshire has the lowest growth rate. Northamptonshire and Lincolnshire also have the lowest population density, with Nottinghamshire having the highest. It is therefore possible to relate these growth patterns to threshold levels being reached by the densest counties, leading to spill-overs into the lesser dense counties.

In terms of labour market variables, the East Midlands' claimant unemployment in January 1997 ranged from 4.4% in Northamptonshire to 8% in Nottinghamshire. Other variables are presented in detail in Tables 13 and 14.



**Table 11: Area and Population Statistics by Region 1995 for England (1981 – 1995)**

<b>Region</b>	<b>Persons per square km</b>	<b>Total Population Change %</b>
England	375	+4.4
North East	303	-1.2
North West & Merseyside	487	-0.6
Yorkshire & Humberside	326	+2.3
East Midlands	264	+7.0
West Midlands	408	+2.3
Eastern	275	+8.3
London	4440	+3.0
South East	411	+8.3
South West	203	+10.2

Source: Regional Trends (1997)

**Table 12: Area and Population Statistics for the East Midlands by County 1995 (1981 – 1995)**

<b>County</b>	<b>Persons per square km</b>	<b>Total Population Change %</b>
East Midlands	264	7.0
Derbyshire	364	4.8
Leicestershire	362	7.5
Lincolnshire	103	10.6
Northamptonshire	253	12.5
Nottinghamshire	478	3.8

NB: Harborough (of Leicestershire) had a growth rate of 17.4% over the 14 year period.

Source: Regional Trends (1997)

**Table 13: Regional Accounts by English Region (1981 – 1995)**

Region	GDP (1993)		Household Income (1994)		Disposable Income (1994)	
	£ million	£ per head index*	£ million	£ per head index	£ million	£ per head index
England	457,480	101.8	479,786	101.5	395,394	101.1
NE	20,758	85.8	21,917	86.5	18,621	88.9
NW/ Merseyside	58,296	91.2	61,180	91.3	51,262	92.5
York/Hull	41,765	89.9	44,832	91.9	37,635	93.3
EM	36,556	96.7	37,698	94.7	31,070	94.4
WM	45,602	93.1	47,727	92.9	39,948	94.0
Eastern	46,027	95.7	54,428	107.4	44,549	106.3
London	92,922	144.7	80,929	119.7	65,339	116.8
SE	73,389	102.4	85,058	112.6	68,296	109.3
SW	42,164	95.5	46,017	98.8	38,674	100.4

\*Index is UK index=100. Source: Regional Trends (1997)

**Table 14: East Midlands County Accounts (1981 – 1995)**

Region	GDP (1993)		Household Income (1994)		Disposable Income (1994)	
	£ million	£ per head index*	£ million	£ per head index	£ million	£ per head index
EM	36,556	96.7	37,698	94.7	31,070	94.4
Derbys.	7,707	87.5	8,309	89.8	6,889	90.0
Leics.	8,783	104.2	8,573	96.4	6,997	95.1
Lincs.	5,148	92.4	5,865	99.8	4,951	101.9
N'hants.	5,783	105.5	5,681	98.4	4,574	95.8
Notts.	9,135	95.9	9,269	92.7	7,659	92.6

Source: Regional Trends (1997)

### 5.3 Population Analysis

The data available on all 474 companies sampled included information on profits, turnover, employees, industrial sector, value added, number of directors, capital employed, and year established, shown in Table 15. For the sake of analysing respondent bias, and to give an understanding of the character of the sample, results are presented below in Tables 16 to 22, grouped by All Firms, Respondent Firms and Non-Respondent Firms. A comparison of these variables between groups is presented later.

**Table 15: A Summary of All Firms in the Database**

Variable*	Mean	Minimum	Maximum	Number of Observations
Employees	79	1	250	473
Exports (£'000)	1572	4	14044	171
Capital Employed <sup>13</sup> (£'000)	1822.01	-539.00	18356	473
Capital per Employee (£)	36238.37	-11056.00	542333.00	473
Number of Directors	4	1	10	471
Profit per Employee (£)	15968.73	-131607.00	201000.00	367
Profit (£'000)	423	0	997	187
Turnover per Employee (£)	196923.7	1357.0	7023000	473
Turnover (£'000)	6653.4	32.0	30783.0	473
Value Added (£'000)	1644	0	8850	460
Year Incorporated	1973	1894	1995	473

\* Definitions of Variables are given in the Appendix.

Source: Dunn & Bradstreet (1999)

Table 15 above shows the average values for the variables chosen. The variation in the number of respondents is due to a lack of reporting. This is especially evident in the gross profit variable where only 187 of the 474 respondents gave any details. The level of

<sup>13</sup> Capital employed is defined here as the value of the fixed assets of the firm (plant, machinery and other fixed assets), long-term loans, and other long-term liabilities. Using this definition, a negative value can result if the value of fixed assets is less than the long-term liabilities of the firm, i.e. the firm owes more in the long-term than the value of its fixed assets.

exports for the year 1996 is somewhat compromised by some exporters not reporting export levels, and non-exporters putting a value of zero instead of non-reporting. This would therefore have compromised the results as zero values would have been included in the calculation, and would therefore reduce the averages. These zero values have therefore been removed from all groups and subgroups. A comparison between these exporters and the non-exporters in the whole sample is expanded on below. This is in order to establish whether there are any salient differences between these two forms of company based on the limited data available.

The firms selected from the OneSource Database included firms from the industrial sectors shown in Table 16. At a glance it can be seen there is sufficient industrial variation to negate any industrial bias in the sample selected. Apparel & Furs, Food & Beverages, Machinery & Equipment, Metal Products, and Textiles compose 46.7% of the sample, with Machinery & Equipment having the greatest representation with 13.3%. Packaging, and Transport Equipment have the lowest representation with 1.7% and 1.5% respectively.

**Table 16: Industrial Breakdown of Population (473 firms).**

<b>Industry</b>	<b>Percentage in Sample</b>
Apparel & Furs	7.8
Chemicals	3.4
Food and Beverage	7.2
Furniture & Manufacturing	4.9
Leather & Leather Products	4.2
Machinery & Equipment	13.3
Medical & Precision Equipment	3.2
Metal Products	8.0
Motor Vehicles & Parts Thereof	3.6
Pulp & Paper	3.2
Rubber & Plastic	6.3
Textiles	10.6
Wholesale Trade, except Motor Vehicles	6.3
Printing & Publishing	4.2
Computers & Related Equipment	2.7
Transport Equipment	1.5
Wood & Wood Products	3.0
Non-Metal Minerals	2.1
Packaging	1.7
Other Miscellaneous Manufacturing	2.7

Using the variables above in Table 15, non-parametric tests<sup>14</sup> were carried out to establish any salient differences between the exporting and non-exporting (or unreported exporting) groups. Non-parametric tests were used because the data was deemed not to be normally distributed. Mann-Whitney U-tests were used for the comparison of means, while chi-squared tests were used for establishing whether there were any significant differences in the categorical response frequencies from the questionnaire. A summary of these procedures is shown below.

**Mann-Whitney U-Tests** utilise the z-test to establish whether the differences between means are significant. The z-test is similar to the t-test where it is used to compare the difference between two sample means to establish whether they are from the same population and whether any differences occurred by chance, i.e. it determines if the difference is statistically significant. Significance is achieved, in this sense, when there is a low probability that the results from the sample occurred by chance alone. In this case, the null hypothesis is that there is no difference between the means; the alternative hypothesis being that there is a difference between the means of the two groupings. At a 5% confidence level, that is, if there is less than a 5% probability that the difference in means occurred by chance, the critical value for the z-statistic, in absolute terms will be 1.96. If the z-value is greater than the critical value, the difference in the means is considered significant at this 5% level, rejecting the null hypothesis. For example, for the comparison of the variable Employees in Table 17, the z-value is -2.972, which in absolute terms is greater than 1.96. Therefore, the null hypothesis is rejected, and the significance value indicates that there is a 0.3% chance that the differences in the means between exporters and non-exporters occurred by chance. Therefore, this infers that there is a tendency for exporting firms to employ significantly more persons than non-exporting firms.

**The Chi-squared Test**, as used to test the response frequencies from the questionnaire survey, is generally used to establish whether variables are inter-related or not. The chi-squared test makes no assumptions about the distribution of the data and tests hypotheses about the relative proportion of cases falling into several mutually exclusive groups.

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<sup>14</sup> Mann-Whitney U tests (M-W) were performed, as they utilise the non-parametric equivalent to the t-test. M-W tests whether two independent samples come from the same population.

The Chi-squared test is therefore a ‘goodness-of-fit test’, where the responses are checked to establish whether they are evenly divided. The null hypothesis for the chi-squared test is therefore:

H<sub>0</sub>: observed values are equal to expected values

The alternative hypothesis is:

H<sub>a</sub>: observed values are **not** equal to expected values.

The chi-squared statistic, which shows to what extent the observed frequency data deviates from the hypothesised frequency distribution, is constructed as follows.

$$X^2 = \sum (O-E)^2 / E \quad (1.1)$$

Where:

X<sup>2</sup> is the chi-squared statistic

Σ is the symbol for sum of

O represents the observed response frequency

E represents the expected response frequency

Therefore, as seen from the construction of the statistic, the greater is X<sup>2</sup>, the greater is the discrepancy between the observed and expected values. The critical value is, however, dependent on the amount of degrees of freedom. Degrees of freedom is used to describe the number of values in a final calculation that are free to vary. For example, with a sample of size *n*, grouped into *k* intervals, there are *k*-1 degrees of freedom. This is because *k*-1 frequencies are actually specified, while the other frequency is specified by the total size of the sample, *n*. In practice, from cross-tabulations, the degrees of freedom (d.f.) are calculated by the following formula:

$$d.f = (\text{number of columns} - 1) \times (\text{number of rows} - 1) \quad (1.2)$$

Once the critical value for the chi-squared test is obtained using the degrees of freedom and the level of significance required, the chi-squared statistic can then be compared to the critical value. This is in order to establish whether the difference between the observed and the expected values is significant and did not occur by chance. For example, in Table 30, for the variable Foreign Company, the chi-squared value is 5.75, calculated from formula 1.1. As there are 2 possible responses (yes or no), separated into two possible groupings (exporter/non-exporter) (see Table 31), there is 1 degree of freedom, as

calculated from formula 1.2. The critical value for the chi-squared statistic, with 1 degree of freedom at the 5% significance level is 3.84. As the chi-squared value is greater than the critical value ( $5.72 > 3.84$ ), the null hypothesis is rejected and the alternative hypothesis is accepted; there is a statistically significant probability (95%) that the difference between the observed and expected values did not occur by chance. The results from these tests and the related test statistics are shown in the tables that follow.

**Table 17: Comparison Between Groups- All Firms- Exporters/Non-exporters**

Variables <sup>15</sup>	Exporters Mean	Non-Exporters Mean	Z-value	Signif. <sup>16</sup>
Employees	89	48	-2.972	0.003*
Capital Employed (£'000)	1949.5	1154.3	-2.368	0.018*
Capital per Employee (£)	31475.8	47716.0	-0.366	0.714
Number of Directors	4	3	-2.363	0.018*
Profit per Employee (£)	16980.5	12989.1	-1.100	0.272
Profit (£'000)	519.2	364.5	-1.989	0.047*
Turnover per Employee (£)	211005.2	252662.1	-2.424	0.015*
Turnover (£'000)	6749.8	5245.4	-1.639	0.101
Value Added (£'000)	1865.2	976.0	-3.170	0.002*
Value Added per Employee (£'000)	25.79	23.92	-0.098	0.922
Age	25	21	-0.629	0.529

\* indicates significance at the 5% level;

The significant differences between the two groups inferred from the results of the M-W test include number of employees, capital employed, profits, and value added, where there

<sup>15</sup> It needs to be noted here that the averages for related variables do not match because the data for each is constructed using firm specific data. For instance, the means for capital employed and number of employees are **not** used to form the variable, mean capital per employee. Mean capital per employee is an average of the variable capital per employee for each firm. For example, Firm 1 may have 1 unit of capital and 2 employees, while Firm 2 may have 3 units of capital and 9 employees. Capital per employee for Firm 1 is 0.50, for firm 2 is 0.33. The mean capital per employee is therefore 0.42. If mean capital for the two firms (2 units) and mean employees for the two firms (5.5) is used to calculate the mean capital per employee variable, the result is 0.36, 0.06 less than the actual firm specific data. This is seen in several of the tables that follow.

<sup>16</sup> The significance value is the Asymptotic Distribution of the test statistic.



is less than a 5% probability that the differences in the means occurred by chance. From these results it can be shown that exporters are bigger in terms of employees, capital employed, and profits; they also add more value to their products. However, when these variables are standardised for number of employees, e.g. profits *per* employee, only turnover per employee exhibits a significant difference between the two types of company. No significant differences are seen in the other standardised variables. This is in the sense that employees in both exporters and non-exporters both produce approximately the same amount of profit, and value added, and employ approximately the same amount of capital per employee. Because exporters have significantly more employees, there is a significant difference in the non-standardised variables.

As regards capital, it appears that exporters employ more, as a significant difference between the two is shown at a 5% level. However, when this variable is again standardised for the number of employees, there is no significant difference exhibited.

If the prevailing theories, as covered in Chapter 2, are considered, there are some conflicting and supporting results here. The issue of size, as measured by number of employees, is an issue of much debate, where recent research has called for less attention to be paid to the size issue because research has failed to find any significant relationships (Calof, 1994). However, associations have been found (Bonaccorsi 1992; Bell 1995; Reid 1982; Calof 1993; Hirsch & Adar 1974) but these have been for the most part limited. The results here indicate that exporters tend to be larger (significantly in terms of employees, but not turnover), supporting previous research referenced in Chapter 2. The belief is based on the supposition that exporters tend to be larger as size acts as an indicator of financial resources and hence a greater facilitator of internationalisation.

Another issue is that of age, where it has been proposed that older companies will delay longer before internationalising as they become embedded in the domestic market and rigidities formed within the company make internationalisation difficult (Reuber & Fischer, 1997). Against this is the stage approach proposal which postulates that clear distinct stages are followed as the firm internationalises, implying that older firms are more likely to be internationally active as they progress along a learning curve (Bilkey & Tesar, 1977). The results of the tests above show no significant difference in the ages of exporting and non-exporting firms, although exporters do have a higher mean age. This and other issues are investigated later.

Other significant differences exhibited above (profits and turnover per employee), merely reflect the differences in markets served, where non-exporters, by definition, do not have the wider international market from which to attain profits and sales.

#### **5.4 Analysis of Respondent Bias**

Table 18 gives the data for the 115 companies that responded to the survey. A comparison of these results to the overall group's averages and to the non-respondent averages is discussed below to facilitate the identification of any respondent bias and illustrate the overall respondent sample character.

**Table 18: Respondent Group Results**

<b>Variable</b>	<b>Mean</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Number of Observations</b>
Employees	83	2	246	115
Exports (£'000)	1965.6	0	13513	53
Capital Employed (£'000)	1762.93	-50.00	6933.00	115
Capital per Employee (£)	29819.17	-1111.00	322050.00	115
Number of Directors	4	1	9	115
Profit per Employee (£)	151.22.00	-131607.00	117550.00	87
Profit (£'000)	486	0	962	35
Turnover per Employee (£)	130941.49	1357.00	1658000.00	115
Turnover (£'000)	6281.07	38.00	25855.00	115
Value Added (£'000)	1762	0	6691	114
Year Incorporated	1973	1896	1995	115

To illustrate the problem of exporters not giving details of export levels, the number of respondents that report export levels from the original database is 53. If the results of the questionnaire are taken into consideration, there are actually 81 exporters in the respondent group. The population sampled included 36% who report export levels, while the non-respondent group included 33%. If this is compared with the respondent group's original data, which has 46% presenting export levels, it can be seen there is a small amount of bias towards exporters in the respondents, but not a significant bias. If, however, the results of the questionnaire are then taken into account, where there are 81 exporters in the respondent group, the number of exporters is actually 70% and the bias towards exporters replying to the questionnaire becomes clearer. The reason for this bias is unclear and is not believed to stem from the wording of the questionnaire in the Appendix, as reference is made to the interest the study had in both domestic and external market operation. Questions concerning exporting are towards the end of the questionnaire to specifically avoid this problem of bias, however the problem of a bias towards exporting firms is clear.

**Table 19: Non-Respondents Group Results**

Variable	Mean	Minimum	Maximum	Number of Observations
Employees	78	1	250	358
Exports (£'000)*	1394.94	4	14044	118
Capital Employed (£'000)	1840.99	-539.00	18356.00	358
Capital per Employee (£)	38300.41	-11056.00	542333.00	358
Number of Directors	4	1	10	356
Profit per Employee (£)	16231.82	-19500.00	201000.00	280
Profit (£'000)	409	0	997	152
Turnover per Employee (£)	218119.11	10667.00	7023000	358
Turnover (£'000)	6773.01	32	30783.00	358
Value Added (£'000)	1605	0	8850	346
Year Incorporated	1973	1894	1995	358

\*Only includes firms that reported a non-zero export level.

To enable comparison between respondents and non-respondents, Table 19 shows the corresponding averages for the non-respondents. The large ranges in variable values seen in the respondent group in Table 18 are mirrored here by the non-respondents.

As with the comparison between exporters and non-exporters for the whole sample, M-W tests were carried out on the variables available between respondents and non-respondents to establish any other sample respondent bias. Table 20 shows the results of this analysis.

**Table 20: Comparison between Respondents and Non-Respondents**

<b>Variables</b>	<b>Respondent Mean (115 Cases)</b>	<b>Non-respondent Mean (359 Cases)</b>	<b>Z- value</b>	<b>Signif.</b>
Employees	83	78	-1.403	0.161
Exports (£'000)	1965.6	1394.94	-3.236	0.001*
Capital Employed (£'000)	1762.93	1840.99	-1.058	0.290
Capital per Employee (£)	29819.17	38300.41	-0.096	0.923
Profit per Employee (£)	15122.00	16231.82	-0.889	0.374
Profit (£'000)	486	409	-1.198	0.231
Turnover per Employee (£)	130941.49	218119.11	-1.265	0.206
Turnover (£'000)	6281.07	6773.01	-0.685	0.493
Value Added (£'000)	1762	1605	-2.935	0.033*
Year Incorporated	1973	1973	-0.868	0.385

\*Indicates significance at the 5% level.

It can be seen from the results of the M-W tests that there is little difference between the two groups apart from export levels, and value added. It must, however, be noted that the exports variable is just a comparison between exporters in respondents and non-respondents, and companies that reported zero exports were not counted in the averages.

Therefore, the only conclusion that can be gleaned from this significant result is that the exporters in the response group are more intensive exporters than exporters in the non-respondent group.

From the comparison above, respondents also add significantly more value to their products, which could be a function of the difference in industrial response, shown in Table 21, with several industries, noted for their value-adding, being over-represented in the respondent sample, including Chemicals, Medical & Precision Equipment, Motor Vehicles and Parts thereof, and Packaging.

Table 21 (below) provides a brief overview of the industrial breakdown of the population, subdivided into Respondents, Non-respondents, and all firms in the original database. Table 27 provides a more detailed breakdown of respondents, divided into exporters and non-exporters.

The breakdown of respondents appears not in line with much of the population sampled. The only industries roughly in line with the profile of the population and the non-respondent groups are Food & Beverages, Machinery & Equipment, Computers & Related Equipment, Transport Equipment, Wood & Wood Products, and Non-Metal Minerals. Machinery & Equipment has the highest share in all the groupings at approximately 13%. There are several industries under-represented in the response group, including: Apparel & Furs, Metal Products, Pulp & Paper, Textiles, Wholesale Trade, and Other Miscellaneous Manufacturing.

The over-representation of industries in the sample is most evident with Leather & Leather Products, comprising 8.7% in the respondent sample, as compared with only 4.2 % in the population sampled. This factor may however be due to the survey being based in Northampton, a town with a rich history in leather manufacturing. This bias towards Northamptonshire respondents is shown in the next section analysing the location of respondents.

**Table 21: Industrial Breakdown Comparison**

<b>Industry</b>	<b>Respondents (%) (115 Cases)</b>	<b>Non-Respondents (%) (358 Cases)</b>	<b>All (%)</b>
Apparel & Furs	5.2	8.7	7.8
Chemicals	5.2	2.8	3.4
Food and Beverage	6.1	7.5	7.2
Furniture & Manufacturing	6.1	4.5	4.9
Leather & Leather Products	8.7	2.8	4.2
Machinery & Equipment	13.9	13.1	13.3
Medical & Precision Equipment	5.2	2.5	3.2
Metal Products	5.2	8.9	8.0
Motor Vehicles & Parts Thereof	5.2	3.1	3.6
Pulp & Paper	1.7	3.6	3.2
Rubber & Plastic	7.8	5.9	6.3
Textiles	7.8	11.5	10.6
Wholesale Trade, except Motor Vehicles	3.5	7.3	6.3
Printing & Publishing	5.2	3.9	4.2
Computers & Related Equipment	2.6	2.8	2.7
Transport Equipment	0.9	1.7	1.5
Wood & Wood Products	3.5	2.8	3.0
Non-Metal Minerals	1.7	2.2	2.1
Packaging	3.5	1.1	1.7
Other Miscellaneous Manufacturing	0.9	3.4	2.7

### 5.5 Location of Respondents

In an analysis of the location of the respondents, based on three-figure postcode data concerning the main trading address of the individual companies, some interesting points arose. From Table 22, the spatial differences in export market involvement of the sample are evident.

**Table 22: Location of Respondents and Number of Exporters and Importers per Location.**

<b>Postcode Area (based on 3-figure codes)</b>	<b>Number of Respondents</b>	<b>Number of Exporters (% of Total)</b>	<b>Number of Importers</b>
1. Northamptonshire	39	31 (84%)	27 (73%)
2. Leicestershire	24	16 (67%)	14 (58%)
3. Peterborough	6	5 (83%)	5 (83%)
4. Nottinghamshire	31	16 (52%)	22 (71%)
5. Derbyshire	10	10 (100%)	5 (50%)
6. Lincolnshire	5	3 (60%)	4 (80%)
<b>TOTALS</b>	<b>115</b>	<b>71</b>	<b>77</b>

The most interesting result, mainly based on the size of the sample, is that some 84% of respondents from the Northamptonshire area are actively involved in export markets. In consideration of the other results, Nottinghamshire provides the only other result which has a large enough sample to be interesting, with 52% of respondents involved in export markets and 71% involved in import markets. It is quite clear from these results that Northamptonshire provides the most internationally active area for respondents where 73% are also involved in import markets.

As far as response rates and any analysis of respondent bias are concerned, the greatest number of respondents came from the Northamptonshire area, some 34% of the respondents. This is not surprising because of a greater identification with the survey origin, University College Northampton. But this is not a great deal more than the number of respondents from Nottinghamshire (27%) and Leicestershire (21%). Overall the distribution of respondents contains the main economically active area of the East Midlands.

Table 23 below shows the industrial profile by postcode area of the respondents. The profile appears to fit with the historical character of the region, where Leather and Leather Product manufacturers are mostly found in Northamptonshire, and 4 of the 6 Apparel and Furs manufacturers in the respondents originate from the Nottinghamshire area, an area noted for its lace production. Other points to note include:

- 4 of the 6 respondent Chemical firms, and 5 of the 9 Rubber and Plastic manufacturers were from Northamptonshire
- 4 of the 7 Furniture & Manufacturing firms were from Nottinghamshire
- 4 of the 9 Textile manufacturers were from Leicestershire
- 10 of the 16 Machinery and Equipment manufacturers were from the adjoining counties of Northampton and Leicestershire

These results provide insights into the structure of the sample that responded and this has implications for other results analysed below.



**Table 23: Industrial Breakdown of Respondents (115 firms) by Postcode Area**

Industry	Postcode Area <sup>17</sup>					
	1	2	3	4	5	6
1. Apparel & Furs	1	1	-	4	-	-
2. Chemicals	4	-	-	-	2	-
3. Food and Beverage	2	-	1	3	-	1
4. Furniture & Manufacturing	2	-	-	4	-	1
5. Leather & Leather Products	9	-	-	1	-	-
6. Machinery & Equipment	6	4	2	2	2	-
7. Medical & Precision Equipment	-	2	-	1	3	-
8. Metal Products	3	2	-	1	-	-
9. Motor Vehicles & Parts Thereof	2	1	1	-	1	1
10. Pulp & Paper	-	-	-	2	-	-
11. Rubber & Plastic	5	2	-	1	1	-
12. Textiles	-	4	-	3	1	1
13. Wholesale Trade, except Motor Vehicles	-	1	1	2	-	-
14. Printing & Publishing	2	1	-	3	-	-
15. Computers & Related Equipment	1	1	-	1	-	-
16. Transport Equipment	1	-	-	-	-	-
17. Wood & Wood Products	1	2	-	1	-	-
18. Non-Metal Minerals	-	1	-	1	-	-
19. Packaging	-	2	1	1	-	-
20. Other Miscellaneous Manufacturing	-	-	-	-	-	1
<b>TOTAL</b>	<b>39</b>	<b>24</b>	<b>6</b>	<b>31</b>	<b>10</b>	<b>5</b>

<sup>17</sup> See Table 22.

### **5.6 Respondent Analysis: Questionnaire Data**

Of the 474 companies surveyed, 5 companies that responded were deemed unsuitable by the selection criterion, they were either going out of business or had been taken over by a larger company. The sample size was then considered to be 469.

From the 115 respondents, the following average company (AC) profile was established:

Directors:	4
Company Age:	36 years old
Full-Time Employees:	81
Part-Time Employees:	10
Average Machine Age:	7 years old
Manual Employees (%):	22%
Semi-Skilled Employees (%):	28%
Skilled Employees (%):	50%

The AC has also been importing for approximately 19 years; none of the directors have worked abroad or for a foreign company; it is a close company with customised machinery operating in a niche market; it does not subcontract to a foreign company; it does not receive any grants; it imports some of its inputs; and has grown over the last two years in employees. The AC also experiences high national competition, is labour intensive, its capital investment has increased over the last two years, along with increases in profits, research and development, product range, and sales. There is also a high level of skilled employees in the firms in the respondent group.

The average exporting company (AXC) had the following characteristics:

Location of Main Customers:	51% in UK
	24% in EU
Change in Exports:	53% experienced an increase in last 2 years.
	30% experienced no change.
International Competition:	57% believe it to be high.
Main Import Origin:	60% import from EU.

Location of Main Supplier: 36% main supplier is in UK.

33% main supplier is in EU.

Main Export Destination: 54% export mainly to EU.

Overall the respondent frequencies are presented in Tables 24, 25, and 26.

**Table 24: Respondent Frequencies: Dichotomous Variables.**

<b>Variable*</b>	<b>NO (%)</b>	<b>YES (%)</b>	<b>No. Missing Values</b>
Subcontract to Company <b>Abroad</b> ?	86 (74.8)	18 (15.7)	11
Directors Speak Another <b>Language</b> ?	46 (41.4)	65 (55.1)	4
Is the Company a <b>Close Company</b> ?	12 (10.4)	90 (78.3)	13
Is any machinery <b>Customised</b> ?	37 (32.2)	66 (57.4)	12
Did the EU influence imports ( <b>eum</b> )?	90 (78.3)	5 (4.3)	13
Did the EU influence exports ( <b>eux</b> )?	85 (73.9)	8 (7.0)	22
Have any of the directors worked abroad or for a <b>foreign</b> company?	72 (62.6)	41 (35.7)	2
Has the company received any <b>grants</b> ?	80 (69.6)	33 (28.7)	2
Is the company <b>hi-tech</b> ?	74 (64.3)	41 (35.7)	0
Does the company <b>import</b> ?	36 (31.3)	78 (67.8)	1
Is the company <b>labour intensive</b> ?	33 (28.7)	80 (69.6)	2
Does the company operate in a <b>niche</b> market?	37 (32.2)	76 (66.1)	2
Is the company <b>small</b> ? (<50 employees)	73 (63.5)	42 (36.5)	0
Does the company have any <b>subsidiaries</b> ?	40 (34.8)	60 (52.2)	15
Does the company <b>subcontract</b> to any UK companies?	74 (64.3)	36 (31.3)	5
Does the company <b>Export</b> ?	33 (28.7)	82 (71.3)	0

\*In future tables the variables will be referred to by their code names. Code names are in **bold**.

From the responses above there are several interesting issues that require comment. The main points to be noted are:

- The amount of directors that speak another language amount to 55.1% of those sampled. This may be a direct result of the amount of exporters that responded (71.3% of the sample), where it would be expected that exporters are more likely to have to be proficient in another language (Dichtl *et al.*, 1990). However, the direction of causation is unclear here, i.e. does exporting lead to the learning of another language or does antecedent learning facilitate the venturing into export markets?
- The EU's influence on exporting and importing is minimal for the respondents. This goes against the proposal that the EU will have significant effects on trade liberalisation. The formation of the EU therefore does not appear to be an influence on the internationalisation of the SMEs in the current sample
- The number of labour intensive firms comprises nearly 70% of the respondents, which is probably because of the high percentage of low technology firms that responded (64.3%), which rely more on labour inputs than capital machinery
- The niche market orientation of firms in the sample is high at 66%, emphasising the importance of niche markets to SMEs
- There is a high level of representation by exporters in the sample.

The interesting points that require noting are:

- The average export levels for the exporters in the sample is over £1million, nearly 20% of average turnover
- The exporting firms in the sample have been exporting for 21 years prior to being sampled (July 1997), therefore the average exporter commenced exporting in 1976.

**Table 25: Respondent Means: Continuous Variables.**

<b>Variable</b>	<b>Mean</b>	<b>Missing Values</b>
Age (years)	35.6	1
Directors	4	1
Employees	83	0
Exports (£)	1183830	33
Full Time Employees	81	3
Capital Employed (£)	1762930	0
Capital per Employee (£)	29819.8	0
Machine Age (years)	7	28
Manual Employees (%)	22	7
Semi-Skilled Employees (%)	28	8
Skilled Employees (%)	50	8
Product Groups	5	6
Products	2531	13
Profit per Employee (£)	15122	28
Profit (£'000)	486.171	80
Part-Time Employees	10	1
Turnover (£)	6281070	0
Turnover per Employee (£)	130941.5	0
Value Added (£'000)	1761.596	1
Value Added per Employee (£)	24073	14
Years Importing	19	38
Years Exporting	21	35
Skill Ratio*	0.642	9

\*Skill Ratio calculation is  $[(\text{Percentage of Skilled} \times 2) + (\text{Percentage of Semi-skilled})] / 2$

Note: The Difference between Employees and Full Time Employees is due to different database source. **Employees** variable is from OneSource Database and **Full Time Employees** is from the Questionnaire Survey

**Table 26: Main Respondent Frequencies: Categorical Responses.**

<b>Variable</b>	<b>Primary Mode (%)</b>	<b>Secondary Mode (%)</b>	<b>Missing Values</b>
Main Competition Location	National (46.1)	Europe (26.1)	0
Main Customer Location	National (53.0)	Europe (16.5)	0
Change in Employees in last two years	Increased (55.7)	Same (22.6)	1
Change in Exports in last two years	Increased (40.0)	Same (34.8)	14
How long in East Midlands	10+ years (78.2)	4-7 years (10.9)	5
Level of Regional Competition	Moderate (47.3)	High (46.2)	24
Level of National Competition	High (66.1)	Moderate (32.1)	6
Level of International Competition	High (59.2)	Moderate (28.6)	17
Change in level of Capital investment in the last two years	Increased (64.9)	Same (33.3)	1
Location of Main Market	National (64.6)	International (24.8)	2
Main Importing Location	EU (59)	Worldwide (24.4)	2
Change in level of Profits in last two years	Increased (61.4)	Declined (19.3)	1
Change in level of R&D in last two years	Increased (57)	Same (42)	15
Change in the level of Sales in last two years	Increased (78.1)	Declined (12.3)	1
Change in Product Range in last two years	Increased (71.9)	Same (25.4)	1
Location of Main Supplier	National (40.9)	EU (30.4)	0
Content of Main Supply	Mix of inputs (44.7)	Raw Materials (26.3)	1
Main Country Exporting to	EU (55)	Worldwide (35)	35
Main Prompt for Export Market involvement	Proactive Search (30.7)	Ad Hoc (21.3)	40

One of the most interesting results from Table 26 is the perception of the respondents of regional competition, where 47.3% believe it to be moderate. This may however be related to the number of exporters that responded, where the perception of the regional market will be different from that of a domestically orientated company. The role played by this

perception of competition in the region has occasioned much debate as to whether these perceptions are a precursor to internationalisation, or whether these views were changed after internationalisation (Chetty & Hamilton, 1996).

The rest of the results above show that the firms in the sample are mainly domestically orientated, where the main customers, suppliers and competitors are located nationally. For exporters, the main market is the EU.

### **5.7 Results of Comparison of Means and Response Frequencies**

The results of the questionnaire survey offered the potential for analysing the data by several different groupings. The main subdivision is between exporters and non-exporters. However, other main groupings of exporters solely were analysed, including a separation between small (less than 50 employees and turnover less than £6M) and medium-sized firms (51 to 250 employees, and turnover between £6m and £32M), high and low technology firms, and young (less than 17 years old) and old firms (17+ years old). Other groupings were considered, but the groups analysed present the main theoretical issues investigated in Chapter 2, i.e. the issues of size, age, and technology, and the role played by these in the internationalisation process of the SME. The results for these groups are discussed below.

### 5.8 Comparison Between Exporting & Non-Exporting Respondents

The following analysis seeks to establish whether exporting firms exhibit any characteristics that distinguish them from non-exporting firms in order to identify issues for investigation in the case studies of Chapters 6 and 7. The difference in the industrial profile of the two groups is shown below.

**Table 27: Industrial Breakdown of Respondents: Exporters/Non-exporters (Number of Cases per Industry).**

Industry	Respondents (115 cases)	Exporters (82 cases)	Non- exporters (33 cases)
Apparel & Furs	6	4	2
Chemicals	6	6	0
Food & Beverage	7	4	3
Furniture & Manufacturing	7	4	3
Leather & Leather Products	10	8	2
Machinery & Equipment	16	15	1
Medical & Precision Equipment	6	6	0
Metal Products	6	5	1
Motor Vehicles & Parts Thereof	6	3	3
Pulp & Paper	2	0	2
Rubber & Plastic	9	6	3
Textiles	9	8	1
Wholesale Trade, except Motor Vehicles	4	1	3
Printing & Publishing	6	3	3
Computers & Related Equipment	3	1	2
Transport Equipment	1	1	0
Wood & Wood Products	4	2	2
Non-Metal Minerals	2	1	1
Packaging	4	3	1
Other Miscellaneous Manufacturing	1	1	0



Of significance is that all Chemical and Medical and Precision Equipment manufacturers are exporters, while no Pulp and Paper manufacturers are exporters. Another interesting point is that in several of the industries represented above, the majority of firms are exporters. These industries include Leather and Leather Products; Machinery and Equipment; Metal Products; and Textiles. If the level of technology in production is considered an important facilitator of internationalisation (Chetty & Hamilton, 1996), this would explain the dominance by Chemicals, Medical and Precision Equipment, Machinery and Equipment, and Metal Products in the exporting group. The high level of representation by Leather and Leather Products and Textiles in the exporting group, however, weakens this argument. Rather the explanation probably lies in the role played by reputation, because the East Midlands region historically has a good reputation in the Leather industry, especially in the Northampton area, as well as a good reputation for Textiles and Apparels, especially for lace production in Nottingham. This demonstrates the importance of understanding events in context, both historically and spatially. If the results of the industrial profiles shown above were not considered in context, then the high level of exporters (nearly 20% of exporters in the sample) from the Leather industry and the Textile industry would not be fully understood.

Other significant differences between subgroups are presented below in Tables 28 to 49. These include comparisons between exporters and non-exporters (respondents), exporters and non-exporters (non-respondents), old and young respondent exporting firms, high technology and low technology respondent exporting firms, and small- and medium-sized respondent exporting firms. The rationale for this procedure is to facilitate comparisons between, and presentation of, sample characteristics to enable greater understanding of any salient traits that may be of interest for further investigation. Whether or not any points of interest arise, this will still be a useful exercise, giving the study elements of both transparency and completeness.

**Table 28: Results of Comparison of Means for Respondent Exporters and Non-Exporters.**

Variable	Exporters Mean	Non-exporter Mean	Z-test	Signif.
Ages (years)	22	19	-0.602	0.547
Employees (Total)	88	70	-1.441	0.150
Capital Employed (£'000)	2021	944	-0.875	0.382
Capital per Employee (£)	38787	22175	-0.173	0.863
Profit per Employee (£)	19956	5978	-0.642	0.521
Profit (£'000)	565.3	398.9	-1.328	0.184
Turnover per Employee (£)	156258.8	139022.0	-1.750	0.080**
Turnover (£'000)	6300.9	5528.6	-0.022	0.983
Value Added (£'000)	1987	1114	-1.542	0.123
Skill Ratio	0.7	0.6	-0.691	0.490
Full Time Employees	84	72	-0.963	0.336
Machine Age (years)	7.69	5.61	-1.063	0.288
Manual Employees (%)	23.3	18.2	-0.949	0.343
Product Groups	4	5	-0.181	0.856
Products	2842	1623	-1.053	0.292
Part-Time Employees	7	17	-0.673	0.501
Semi-Skilled (%)	28.1	25.6	-0.844	0.398
Skilled (%)	48.3	57.1	-1.417	0.156
Years Importing	19.2	18.4	-0.278	0.781

\*\* indicates significance at the 10% level.

Table 28 shows a number of differences between the two groups of firms. However, the only **significant** difference between the two groups is that exporters have a higher level of turnover per employee.

Though no other significant differences are shown, the following points should be noted concerning the average exporting and average non-exporting firm:

- Exporting firms are older, and larger in terms of employees and turnover than non-exporting firms
- Exporters employ more capital, attain greater profits, and add more value to their products

- Exporters also have a wider product range, probably because they adapt products to suit the markets they to which they export.

A comparison with the non-respondents to the questionnaire in Table 29 shows the corresponding M-W test results derived from the available data.

**Table 29: Comparison of Means for Non-respondent Exporters and Non-Exporters.**

Variable	Exporters Mean	Non-exporter Mean	Z-test	Signif.
Ages (years)	26	21	-1.311	0.190
Employees	89	47	-2.862	0.004*
Capital Employed (£'000)	1917	1201	-2.271	0.023*
Capital per Employee (£)	28192	53446	-0.394	0.693
Profit per Employee (£)	15578	14547	-1.100	0.272
Profit (£'000)	500	359	-1.989	0.045*
Turnover per Employee (£)	235595	278158	-2.453	0.014*
Turnover (£'000)	6951	5182	-1.522	0.128
Value Added (£'000)	1808	945	-3.060	0.002*

\*indicates significance at the 5% level.

A comparison between non-exporters and non-respondents to the questionnaire survey, exhibited significant differences in employees, capital employed, profit levels, turnover per employee and value added. This is in line with the results of the comparison between exporters and non-exporters in the full sample shown in Table 28. The number of employees is not in line with the respondent sample, but in line with the results from the full sample, where it is the exporters who employed significantly more people.

It can therefore be seen that the non-respondents provide an accurate profile of the population breakdown between exporters and non-exporters. The respondent sample is therefore biased in the sense that the significant differences shown in the population are not evident in the respondents. This centres around employees, capital employed, profit and value added, where the population shows significant differences between exporters and non-exporters in these variables, but no significant differences are shown in the respondents. The respondents can therefore be considered a more homogeneous group than the non-respondents if these variables are considered. However, from the results of the questionnaire, differences between exporters and non-exporters in the respondent sample can be seen, as exhibited below in Table 30.

**Table 30: Comparison of Respondent Sample Frequencies for Exporters and Non-Exporters**

Variable	Chi-squared Value	Degrees of freedom	Significance
Foreign Company	5.75	1	0.0165*
Language	4.08	1	0.0434*
Close Company	1.17	1	0.2792
National Competition	8.87	2	0.01180*
Customised	1.15	1	0.2826
Grants	3.98	1	0.0460*
Hi-tech	0.13	1	0.7139
Import	6.14	1	0.0131*
Regional Competition	11.66	2	0.0029*
Labour Intensive	0.00	1	0.9804
Niche	2.99	1	0.084**
Profits	0.45	2	0.7996
Subsidiary	0.00	1	1.000
Supplier	3.27	2	0.1944

\*indicates Significance at the 5% level.

\*\*indicates Significance at the 10% level.

From the comparison of frequencies in Table 30, more salient differences between the two groups of companies can be seen. The significantly higher proportion of exporters whose directors have worked abroad or for a foreign company, clearly shown by Table 31, supports the claim that some form of international experience is a contributing factor in a company's being involved in exporting. This result is considered significant because the chi-squared value (5.75) is larger than the critical value (3.84), leading to a rejection of the null hypothesis that there is no difference between the two groups, as described in section 5.3.

The conclusion concerning the relevance of foreign experience is further supported by the significant proportion of directors in exporting companies speaking at least one other language apart from English (chi-squared value (4.08) > critical value (3.84)), shown in detail in Table 32, in contrast to directors in non-exporting companies. These findings support the proposal that a reduction in psychic distance or international acceptance contributes to the tendency for a company to become involved in international markets.

**Table 31: Cross-tabulation of Export Status and Working Abroad**

		Export?		TOTAL
		NO	YES	
Work Abroad?	NO	24	48	72
	YES	7	34	41
TOTAL		31	82	113

In considering the importance of foreign language competence, there is much support in the literature for the belief that exporting companies will indeed have managers more versed in foreign languages (Cavusgil, 1982; Barrett & Wilkinson, 1986; Dichtl *et al.*, 1990; Reuber & Fischer, 1997). The direction of causality here is however unclear, as it cannot be extrapolated from these results whether getting involved in export markets leads to the acquisition of a foreign language, or whether prior acquisition has increased the propensity to become involved in export markets. This is an area that will be investigated further as individual companies are examined in depth, facilitating an understanding of the structure, mechanisms and tendencies at work within these firms.

**Table 32: Cross-tabulation of Export Status and Additional Language**

		Export?		TOTAL
		NO	YES	
Additional Language?	NO	18	28	46
	YES	15	54	69
TOTAL		33	82	115

Companies also gain experience of international markets through importing and its associated reduction in psychic distance makes it more likely they will be involved in export markets. The main problem here, however, is the unclear direction of causation, or whether they are in fact mutually causal. This is a factor that needs further investigation through the in-depth interviews and case studies.

**Table 33: Cross-tabulation of Export Status and Import Status**

		Export?		TOTAL
		NO	YES	
Import?	NO	16	20	36
	YES	17	61	78
TOTAL		33	81	114

The use of grants for training, marketing and relocation from both governmental and quasi-governmental institutions is another area of significant difference between the two groups of companies (see Table 34 below).

**Table 34: Cross-tabulation of Export Status and Use of the Grant System**

		Export?		TOTAL
		NO	YES	
Grants?	NO	27	53	80
	YES	5	28	33
TOTAL		32	81	113

One of the most interesting results from the comparison of response frequencies was the significant difference in the way the two groups of firms envisage the state of competition at the regional level (shown in Table 35), where 71% of non-exporters viewed it as high. In comparison, only 33.3% of exporters viewed regional competition this way. Evidently non-exporters perceive their regional environment as highly competitive which may act as a constraint on further expansion in their market sphere because they believe that they cannot afford to dedicate the resources needed to expand. This suggests that market perceptions are an important factor that needs deeper investigation. However, the direction of causation is unclear raising certain questions, i.e. did exporters perceive competition as high regionally until they broke out of that sphere of operation, or was exporting considered a viable option because they did not perceive competition as high regionally and they could therefore dedicate resources to expanding their market farther? This is an

important area for investigation, as perception will arise from the structures these firms operate within and the tendencies of the decision-makers. This investigation is carried out in the case studies in the following chapters.

**Table 35: Cross-tabulation of Export Status and Perception of Regional Competition**

		Export?		TOTAL
		NO	YES	
Regional Competition	high	22	20	42
	moderate	8	35	43
	uncompetitive	1	5	6
TOTAL		31	60	91

In Table 36, there appears to be no significant difference between the two groups' perception of national competitiveness.

**Table 36: Cross-tabulation of Export Status and Perception of National Competition**

		Export?		TOTAL
		NO	YES	
National Competition	high	23	49	72
	moderate	7	28	35
	uncompetitive	1	1	2
TOTAL		31	78	109

Industrial factors play a role too in that a greater proportion of exporters believe they operate in a niche market, and this is significant (see Table 37). This result supports previous findings where non-exporters believe they operate in a very competitive environment, and are more likely not to operate in a niche market. Here again perceived constraints inhibit the expansion of these non-exporters. As far as exporters are concerned, the perception that they operate in a niche market is linked to their belief that they do not

operate in a competitive environment. This perception of competition and the related move into international markets will be further investigated in the in-depth interviews with key players.

**Table 37: Cross-tabulation of Export Status and Niche Market**

		Export?		TOTAL
		NO	YES	
Niche?	NO	14	23	37
	YES	17	59	76
TOTAL		31	82	113

For the variables where no significant difference is evident, the only results that appear not to be in line with recent research are the possession of customised machinery and high technology machinery. From the basis of this research it would be expected that exporters are more likely to use customised, high technology machinery to carve out a market niche and become involved in international markets. Understanding of this anomaly is difficult with the evidence available. Further investigation in this area is needed in the second stage of the research when more specific data will be available.

### 5.9 Summary of Results of Exporter/Non-exporter Analysis

From the findings presented above, it can be seen that the differences between the two groups of firms centre on international experience, market perceptions and whether they operate in a niche market or not. The results however have to be questioned and criticised using criticisms usually made against positivist work, especially with reference to such questions as direction of causality between variables, and the lack of understanding of underlying structures, mechanisms and tendencies. These and further questions require answers. The objective of the second part of the research methodology is to resolve this problem through in-depth case studies using the methodological framework described in Chapter 4, and the justification for the use of in-depth case studies presented there.

Before these questions are tackled, analysis of further group comparisons will first be undertaken using a within group comparison of exporters to understand whether the group



is homogeneous and whether they can be classified as a taxonomic grouping in themselves. The only group included in this analysis is respondent exporters.

### **5.10 Within Group Analysis of Respondent Exporters**

To establish whether any homogeneity exists within the respondent sample, in relation to reported variables for exporters, the following analysis uses the same non-parametric tests and cross-tabulations as above.

#### ***5.10.1 Analysis of Small and Medium Sized Respondent Exporters***

Table 38 shows that there are several significant differences between small- and medium-sized respondent exporters. Possible explanations for these differences are:

- A greater number of directors, capital employed, higher export levels, and value added by medium-sized exporters due to the size issue, where, because of having a greater number of employees and turnover (by the definitions of size used in footnote 1), these variables would be expected to be significantly higher for medium-sized firms.
- The significant difference in capital, with small-sized firms having a significantly higher level per employee, which could be due to the industrial profile of the two groups of firms. With reference to Table 39, Apparels and Furs, Leather and Leather Products, Metal Products, Motor Vehicles and Parts thereof, and Textiles are all over-represented in the medium-sized sample. There is also a bias towards labour intensiveness in the medium-sized sample, as shown in Tables 40 and 41. This may explain the difference in capital per employee, as the smaller firms in the sample are more capital intensive than the medium-sized firms because of the group's industrial profile.

**Table 38: Results of Comparison of Means for Small and Medium Sized Exporting Respondents.**

<b>Variable</b>	<b>Medium-sized Mean</b>	<b>Small-sized Mean</b>	<b>Z-test</b>	<b>Signif.</b>
Ages (years)	38.4	32.3	-0.505	0.613
Directors	5	3	-3.732	0.000*
Exports (£'000)	2154.35	653.48	-3.168	0.002*
Capital (£'000)	2282.13	893.46	-4.234	0.000*
Capital per employee (£)	19670.3	34790.5	-2.744	0.006**
Machine Age (years)	8	7	-0.351	0.726
Manual (%)	17.92	33.32	-0.840	0.401
Market Share (%)	27.58	32.21	-1.041	0.298
Product Group	4	5	-0.823	0.410
Products	3959	421	-0.301	0.764
Profit per employee (£)	21475	3257	-1.852	0.064**
Profit (£'000)	722	468	-0.297	0.766
Semi-skilled (%)	33.75	17.11	-1.538	0.124
Skilled (%)	48.25	48.52	-0.220	0.826
Skill Ratio	0.65	0.57	-0.260	0.795
Years Importing	21	16	-0.626	0.532
Years Exporting	22	19	-1.378	0.168
Value Added (£'000)	2453.76	798.14	-4.592	0.000*
Value Added per employee (£'000)	22.04	24.15	-1.372	0.170

\* Indicates Significance at the 5% level.

\*\*Indicates Significance at the 10% level.

**Table 39: Industry Profile of Small- and Medium-Sized Exporting Respondents**

<b>Industry</b>	<b>Medium</b>	<b>Small</b>	<b>Total</b>
Apparel & Furs	3	1	4
Chemicals	4	2	6
Food & Beverage	1	3	4
Furniture & Manufacturing	3	1	4
Leather & Leather Products	6	2	8
Machinery & Equipment	8	7	15
Medical & Precision Equipment	4	2	6
Metal Products	4	1	5
Motor Vehicles & Parts Thereof	3	0	3
Pulp & Paper	0	0	0
Rubber & Plastic	5	1	6
Textiles	7	1	8
Wholesale Trade, except Motor Vehicles	1	0	1
Printing & Publishing	1	2	3
Computers & Related Equipment	1	0	1
Transport Equipment	0	1	1
Wood & Wood Products	1	1	2
Non-Metal Minerals	1	0	1
Packaging	1	2	3
Other Miscellaneous Manufacturing	0	1	1
<b>TOTAL</b>	<b>54</b>	<b>28</b>	<b>82</b>

Overall the main differences between the two groups stem from medium-sized firms having higher export levels, higher profit per employee and greater value added. The small companies in the sample tended to have more capital per employee, and a higher percentage of manual workers.

The response frequencies in Table 40, show that levels of foreign experience, language proficiency, changes in the company over the previous two years, niche market involvement, age, level of technology, and export triggers, are approximately the same. The only significant difference exhibited was that firms in the medium-sized group, shown

in Table 41, were much more likely to be labour intensive. This was because of the greater representation of labour intensive industries in the medium-sized sample, as shown in Table 39, where Apparels and Furs, Leather and Leather Products, Metal Products, Motor Vehicles and Parts thereof, and Textiles are all over-represented in the medium-sized sample.

**Table 40: Results of Comparison of Population Proportions between Small and Medium Sized Exporting Respondents.**

Variable	Chi-squared Value	Degrees of Freedom	Significance
Abroad	0.432	1	0.511
Customised	2.213	1	0.137
Employee (change)	0.076	2	0.963
Foreign Company	0.477	1	0.490
Grants	0.025	1	0.875
Import	0.133	1	0.716
Labour Intensive	20.309	1	0.000*
Niche	0.353	1	0.522
Profits (change)	2.860	2	0.239
Subsidiaries	0.000	1	1.000
Young	0.009	1	0.926
Hi-tech	0.579	1	0.447
Language	0.046	1	0.829
Product Range (change)	0.390	1	0.532
Export Prompt	1.515	2	0.469

\*Significance at the 5% level.

**Table 41: Cross-tabulation of Size and Labour Intensiveness**

		Size		TOTAL
		Medium	Small	
Labour Intensive?	NO	7	17	24
	YES	47	11	58
TOTAL		54	28	82

In terms of the prompt for exporting, there was no significant difference between the two groups of firms, with Network and other factors taking the main share. The cross-tabulation is shown below in Table 42.

**Table 42: Cross-tabulation of Size and Export Prompt**

		Size		TOTAL
		Medium	Small	
Export Prompt	Ad Hoc	12	4	16
	Proactive Search	17	6	23
	Network and Other Factors	22	14	36
TOTAL		51	24	75

### **5.10.2 Comparison of Young & Old Respondent Exporters**

The cut-off point used to judge differences in age was 1980, categorising companies over 17 years of age as old. This definition uses the median age of the sample as a cut-off point. From the analysis of means there does not appear to be much difference between the two groups with the exception of the exporting age ratio, where younger firms have been exporting for a greater proportion of their existence (see Table 43). Younger companies would have been formed in the more internationally competitive markets of the 1980s, and would not have developed structures which embed/constrain them to serve solely the domestic market.

The significant difference in the exporting/age ratio suggests that younger companies in contemporary society delay less in becoming involved in international markets. The reason for this proposed by Reuber & Fischer (1997) is that firms with internationally experienced managers will delay less in instigating internationalisation. There is however no evidence to suggest this as there is no significant difference in the level of international experience (foreign languages or working for a foreign company) between these two groups, as shown in Table 44.

**Table 43: Results of Comparison of Means for Young and Old Respondent Exporting Firms**

<b>Variable</b>	<b>Young Mean</b>	<b>Old Mean</b>	<b>Z-test</b>	<b>Signif.</b>
Directors	4	4	-1.216	0.224
Employees	89	87	-0.130	0.897
Exports (£'000)	1824.12	1453.52	-0.817	0.414
Full Time Employees	89.45	82.33	-0.061	0.951
Capital Employed (£'000)	1425.60	1931.29	-1.576	0.115
Capital per employee (£)	19679.85	26495.66	-1.231	0.218
Manual (%)	19.55	24.57	-1.305	0.192
Product Group	2	5	-0.678	0.498
Products	245	3769	-1.541	0.123
Profit per employee (£)	3189.60	17449.09	-1.084	0.278
Profit (£'000)	538.00	565	-0.041	0.967
Part-Time Employees	4	8	-1.344	0.179
Semi-skilled (%)	35.95	25.53	-0.809	0.417
Skilled (%)	44	49.81	-0.921	0.357
Skill Ratio	0.61	0.62	-0.118	0.906
Turnover per employee (£)	96748.45	114275.18	-0.615	0.538
Turnover (£'000)	5453.95	6278.19	-0.583	0.560
Value Added (£'000)	1751.95	1932.45	-0.680	0.496
Exporting/Age Ratio †	0.86	0.60	-3.446	0.001*

\*Indicates Significance at the 5% level.

\*\*Indicates Significance at the 10% level.

† Exporting/Age Ratio is calculated by dividing the amount of years exporting by the age of the company.

**Table 44: Results of Comparison of Response Frequencies between Young and Old Respondents.**

Variable	Chi-squared Value	Degrees of freedom	Significance
Language	0.133	1	0.715
Competition	1.210	2	0.546
Customised	2.404	1	0.121
Exports (change)	0.102	2	0.950
Foreign Company	0.794	1	0.373
Grants	0.002	1	0.963
Hi-tech	0.063	1	0.802
Labour Intensive	0.233	1	0.629
Language	0.403	1	0.526
Niche	0.633	1	0.426
Small	0.009	1	0.926
Subsidiary	0.466	1	0.495
Employee (change)	2.674	2	0.263
Product Range (change)	0.437	1	0.509
Export Prompt	4.547	2	0.103

There is also no significant difference between the export prompt for both groups of companies, as shown in Table 45. From the results shown above, the role played by age in the internationalisation of these firms is minimal. As only the export/age ratio is significantly different between the two, all that can be suggested from these results is that companies established since 1980 are more likely to internationalise earlier in their life-span. This is attributed by Leonidou & Katsikeas (1996) to the fact that:

*“... increasing world-wide [sic] cultural homogeneity allows the novice in international business to enter foreign markets that are psychologically more distant.” (p. 538)*

**Table 45: Cross-tabulation of Age and Export Prompt**

		Age		TOTAL
		Old	Young	
Export Prompt	Ad Hoc	15	1	16
	Proactive Search	18	5	23
	Network and Other Factors	24	12	36
	TOTAL	57	18	75

**5.10.3 Comparison between High & Low Technology Respondent Exporters**

The major significant differences exhibited between these two groups were that high technology firms had significantly:

- greater value added
- younger machinery
- higher export levels
- greater profit per employee due mainly to greater value added
- less part-time employees
- more years exporting

It would be expected that high technology firms would have younger, more up-to-date machinery. The comparison between the two groups, as shown in Table 46, does not arouse much interest with the exception of the proportions of skilled and semi-skilled employees, skill ratios, and export levels.



**Table 46: Results of Comparison of Means for High and Low Technology Respondents.**

Variable	Low-tech Mean	High-tech Mean	Z-test	Signif.
Ages (years)	38	34	-0.598	0.550
Directors	4	4	-0.261	0.794
Employees	91	83	-0.753	0.451
Exports (£'000)	1140.31	2115.27	-1.901	0.057**
Full Time Employees	86	81	-0.618	0.536
Capital Employed (£'000)	1448.35	2315.62	-1.468	0.142
Capital per employee (£)	20494.35	30958.79	-0.433	0.665
Machine Age (years)	9	6	-2.186	0.016*
Manual (%)	26.83	18.30	-0.153	0.134
Product Group	4	5	-1.127	0.260
Products	306	6523	-0.640	0.522
Profit per employee (£)	12702.95	15784.52	-2.227	0.026*
Profit (£'000)	505.75	634.88	-0.889	0.374
Part-Time Employees	10	4	-2.228	0.026*
Semi-skilled (%)	28.30	27.91	-0.015	0.988
Skilled (%)	44.87	53.18	-1.141	0.254
Skill Ratio	0.59	0.67	-1.353	0.176
Turnover per employee (£)	114434.94	103739.79	-0.885	0.376
Turnover (£'000)	5830.90	6424.82	-0.198	0.843
Value Added (£'000)	1671.73	2194.35	-3.078	0.002*
Years Importing	22	15	-0.478	0.633
Years Exporting	21	20	-1.657	0.097**

\*Indicates Significance at the 5% level.

\*\*Indicates Significance at the 10% level.

**Table 47: Comparison of Proportions between High and Low Technology Respondents**

Variable	Chi-squared Value	Degrees of freedom	Significance
Abroad	0.037	1	0.848
Customised	0.005	1	0.943
Employees (change)	2.971	2	0.226
Foreign Company	0.749	1	0.387
Grants	1.310	1	0.252
Import	1.850	1	0.174
Labour Intensive	2.256	1	0.133
Niche	3.114	1	0.078**
Profits (change)	2.749	2	0.253
Subsidiary	0.628	1	0.428
Language	0.432	1	0.511
Export Prompt	1.275	2	0.529

In analysing the results from Table 47, the only difference is that high technology firms perceive that they operate in a niche market (see Table 48).

**Table 48: Cross-tabulation of Technology Level and Niche Market Involvement**

		Technology		TOTAL
		Low	High	
Niche?	No	17	6	23
	Yes	31	28	59
TOTAL		48	34	82

There are however no differences in international experience, customised machinery, grants, labour intensiveness, or export prompt. Differences would be expected in terms customised machinery and export prompt. Customised machinery would be expected to be more prevalent in high technology companies due to the “niche” element of their operation. Export prompt would also be expected to be biased towards a proactive search

by high technology companies if, as shown, they are operating in niche markets. Bell *et al.* (1998) suggest that because of this niche market involvement, high technology firms are pushed abroad due to limitations in the domestic market. They propose that because growth is restricted, a more proactive approach is seen. This does not appear to be the case here, as there is no significant difference between the responses of the two groups.

**Table 49: Cross-tabulation of Technology Level and Export Prompt**

		Technology		TOTAL
		Low	High	
Export Prompt	Ad Hoc	7	9	16
	Proactive Search	14	9	23
	Network and Other Factors	21	15	36
TOTAL		42	33	75

In relation to results of the review of contemporary literature, the companies involved in export markets showed no significant difference in the prompting/triggering of exporting activity. Table 49 shows that there is a fairly even split between the motivations for becoming involved in export markets between high and low technology companies and tests show there is no significant relationship between technology levels and motivation for export market involvement. The literature suggests that this is an anomaly. It is proposed by the results of recent research (Bell *et al.*, 1998) that high technology companies, because of domestic market constraints, are more likely to take a proactive approach to export markets, and low technology firms will take a more *ad hoc* approach. This is not the case here. The interesting result here is the prominence of network and other variables as prompts or triggers of export market involvement. Other variables included here are such factors as piggy-back entry, recommendation from clients, unserved market identification, and market size.

### **5.11 Conclusions and Discussion Points**

The East Midlands SME questionnaire survey provided a wealth of data for analysis. Of the 474 companies surveyed, 115 responded, a response rate of approximately 25%. The main results are described below.

For all 474 companies in the original survey, the main differences between exporters and non-exporters were that exporters had more employees, more capital, achieved higher profits and turnover, and included greater value added. There were no significant differences between exporters and non-exporters in the population in terms of profit per employee, value added per employee, age or capital per employee. The whole database also included a wide industrial base.

In terms of analysing respondent bias, two points were noted: Respondent exporters had higher export levels than non-respondent exporters, and there was a bias in industrial coverage, especially towards leather and leather goods. Other biases noted between respondents and non-respondents were that respondents reported greater value added, and that the majority of the sample came from Northamptonshire.

Respondents included more exporters than non-exporters, 82 exporters as opposed to 33 non-exporters. Sixty-four percent of firms had more than 50 employees and 66% of firms believed they operated in a niche market. For the exporters, a very small amount believed the EU has influenced them to get involved in export markets. In terms of industrial sector, there was an even split between high and low technology firms. Of the respondents, most believed that for the two years before the survey was conducted, they were growing in employees, profits, sales, research and development, exports, capital investment, and product range. The majority of respondents were also labour intensive, 66% believed they operated in a niche market. In the analysis of the differences between exporters and non-exporters a marked difference was seen:

- There was a marked difference in industrial profile between exporters and non-exporters, where technological levels appear important. This is because all Chemical and Medical Precision Equipment manufacturers were exporters, and the majority of Machinery and Equipment, and Metal Product manufacturers were also exporters, both with a high level of technology in production
- The only significant difference in terms of financials, was that exporters had greater turnover per employee

- There were significant differences in responses to the questionnaire survey, where exporters had a significant number of directors that worked abroad or for a foreign company, and they were also more likely to be multi-lingual.
- Perception of regional competitiveness was also significantly different between the two groups, where exporters perceived regional competition as moderate and non-exporters perceived it as high
- Other (non-significant) differences were that exporters were older, larger, attained greater profits, employed more capital, added more value to their products and had a greater skills-base in their manufacturing

The areas for further investigation that arise from these results of the survey is that there appears to be a role played by industry, the level of foreign experience by the decision-makers and the perception of regional competition. These are issues that will be investigated at the level of the firm in the case studies that follow.

In comparing small-sized and medium-sized respondent exporters the only significant difference between the two types of firm worth mentioning was that small companies were more capital intensive. This was attributed above to the difference in the industrial profile of the two groups, with medium-sized respondents having a greater representation in labour intensive industries. The issue of industrial characteristics and the internationalisation of these firms are therefore points that need further investigation, as identified above in the comparison between exporters and non-exporters in the respondent group.

Another point to note is that there was no significant difference in the export prompt for small- and medium-sized firms, with the majority of firms in both groups citing the importance of network and other factors in prompting exports. Size, therefore, does not appear from the results obtained to affect the internationalisation of this group of firms.

In terms of age, the only notable point is that younger firms appear to have been exporting for a greater proportion of their existence. Leonidou and Katsikeas (1996) have attributed this to greater cultural homogeneity worldwide allowing easier participation in international markets by firms formed in this era. Firms formed before this period are believed to be constrained by the fact that they have become embedded in their domestic market, and because of this, have delayed longer in getting involved in international

markets. The issue of age is therefore another area for deeper investigation in the case studies that follow.

Finally the group comparison was between high and low technology respondent exporters. Several significant differences were seen with high technology firms having significantly higher export levels, greater profit per employee, longer export experience and more value-added to their products. There was, however, no significant difference in export prompt between the types of firms. As noted above, it would be expected that high technology firms would pursue a more proactive approach to internationalisation (Bell *et al.*, 1998). Therefore, the findings in this survey are contrary to those of previous research; there is a need for further investigation into why there is no difference in export prompt between these two types of firm.

The other issues identified for deeper investigation from this element of the research are that high technology exporters have more international experience and they also reported higher export levels. From the results of analysis of the main database and the results of the questionnaire survey the main issues identified as relating to the internationalisation of the firm are:

- The effect that the industry a firm operates in has on its internationalisation, i.e. higher technology industries had greater representation in the exporting group
- The role of previous international experience on internationalisation, i.e. exporters have more decision-makers with previous international experience
- The role of perceptions of competition levels, i.e. exporters perceive regional competition as moderate, not high
- The role of age in affecting the internationalisation of the firm, i.e. younger firms internationalising earlier in their life
- The effect of technology on the export levels of the firm, i.e. high technology firms have higher export levels

The results of the questionnaire above have provided an overview of the main characteristics of East Midland SMEs. What the results of the analysis of the secondary database and the results of the questionnaire have also facilitated the identification of the main issues involved in the internationalisation of this group of SMEs. The main issues centre on the points above, where in the internationalisation of these firms a role is played

by the industry a firm operates in, the international experience of the management, the perception of competition, the age of the firm, and the level of technology. The next section of the research therefore attempts to understand why these issues play a role in the internationalisation of SMEs. By highlighting these issues the next element of the research, the case studies, can be targeted towards understanding the underlying causal factors related to these issues. Establishing what it is about industry, foreign experience, perception of competition levels, age and technology that affect SME internationalisation is the aim of the next element of the research.

### **5.12 The Survey Results and A Critical Realist Framework**

In relating back to the Chapters 3 and 4, where the methodological framework for the present research was discussed, the analysis presented above forms the extensive element of the research. Table 6 outlined extensive and intensive research methods, where the relevant research question in the extensive method used here was what are the common attributes/tendencies of East Midland SMEs? The analysis above has achieved this aim by establishing the industrial profile of the population sampled, investigating any salient differences between exporters and non-exporters, and a within group analysis of respondent exporters. From this analysis the main attributes of the sample were established, and the survey has enabled an identification of the main issues for deeper investigation, as outlined in the previous section. The results are however not deterministic, in the sense that firms with managers with greater international experience will become involved in international markets, or all firms from a particular industry are internationalised. What the extensive research has enabled is an identification of the main tendencies within the group. The next step, within a critical realist framework is to identify and understand why these tendencies are important, and how they operate in a real context. Critical realism attempts to identify the causal factors of these phenomena at a deeper level, and attempts to understand the role of structures and the contingent environment in producing these results. Critical realism believes in a stratified version of reality, broken down into the domains of the real, the actual and the empirical. The real domain consists of the mechanisms and structures to be investigated in the case studies, the actual being the observable phenomena of interest, i.e. the international activity of the SME, and the empirical being our experience of these events. The survey above has identified events in the domain of the actual. The case studies that follow will investigate the domain of the real.

**CHAPTER 6: CASE STUDY REPORT 1: WOODCHIP LIMITED**



## **6.1 Introduction**

This chapter will review the main information gathered on the first case study, the company WL. This and the next chapter provide the basis for the cross-case analysis of Chapter 8. The chapter is structured as follows. Initially, an overview of the case is provided, followed by information on the key personnel, a description of the organisational structure of the firm, and an outline of how the case study was conducted. A description of the industry, the firm's place within the industry, and presentation of the firm's main financials and export record follow this. The main influences on the firm's internationalisation are then analysed, followed by a brief description of the interplay between structures and the contingent environment that have led to the relatively low levels of internationalisation for WL.

## **6.2 Case Overview**

Woodchip Ltd. (WL) is a company involved in the manufacture and construction of a variety of timber buildings and timber products. WL also provides a maintenance service (the Fixings Division) which is located in London to fully utilise the company's expertise as well as to serve their bespoke division and serve some of their major contracts which are located in the City and Canary Wharf in London. The decision-making is however centralised at the headquarters in East Northamptonshire, because the manufacturing occurs at the headquarters and the Managing Director has a keen interest in overseeing operations directly.

WL was founded in the 1920s by the current Managing Director's grandfather. The company is multidivisional with separate management teams and finance for each division. The top management level consists of the Managing Director DS, and one other director, WA. Overall, the directors define the company as "*young and proactive*".

WL has been based in the East Midlands since its inception and operates as a close company. Apart from the Head Office in East Northamptonshire, there is one other branch in London that operates the Fixings Division of the company.

The company has recently experienced an increase in sales, profits, employees and capital investment. However, due to the recent strength of the pound, exports have fallen. It is intended to encourage their foreign agents to increase sales.

WL currently employs 28 part-time staff and 62 full-time staff, and is largely labour intensive with a large percentage of employees being skilled (60%) in joinery and carpentry. Although neither of the directors has worked abroad, the sales manager, ZD, the other key player in the exporting operations of the company, previously worked for a large multi-national company (MNC) and speaks fluent French.

WL's main market is regional, although it does operate both nationally and internationally. WL's main competitors are located in the UK and in Europe, and DS considers the market only moderately competitive as WL operates in a high-quality niche sector of the industry. The company operates at this end of the market because they have recognised that:

*"Many companies focus exclusively at [sic] the cost of their products when attempting to boost their competitiveness. In doing so they fail to appreciate that competitiveness can also come from having a product with high value added" (Booth, 1997: p.22)*

Recognising this, the company has altered its focus since the early 1990s towards the high quality end of the market, both in product and after-sales service, which has boosted its position in the marketplace.

The company utilises high-technology CAD equipment for design, and is currently investing in new CNC machinery to aid in production. This machinery has been customised to suit its specific needs. WL's management, however, note that they are one of the last companies in the industry to do this and they decided on this direction because they believed it was necessary to retain competency in the marketplace.

In terms of suppliers, WL orders mainly from UK timber merchants located both regionally and nationally who import timber mainly from Sweden.

WL's exporting started in the late 1980s to mainly France, Spain and Germany. The main triggers for exporting activity are cited as (1) Ad hoc order and (2) A Domestic Client moving abroad; and more recently a proactive market search. The formation of the European Union has, however, had no influence on the company's decision to export.

The chronological history of WL is shown in Table 50. From its origins in the 1920s, the company has remained what is essentially a small, family-run business. Although there is only one remaining family member in the company, DS (the Managing Director), there is a family spirit and the dedication to quality and personal service are paramount. The company has only recently re-focussed towards the high-quality end of the market, though

DS has always believed in producing quality goods, even while targeting the bulk market for sales. The refocus was essential to WL's current success.

The Managing Director's belief in young people contributes to this family atmosphere. DS is the oldest person in the company at 53, and the second Director, WA, is only 32. This belief in a younger workforce is founded on the Managing Director's perception that younger employees will offer more vitality to the business culture. DS believes that as people get older they tend to just go through the motions. According to him, "Young people don't know how to walk, only run".

This underlying system of beliefs permeates the entire company, where a proactive approach to the supply of quality products and service is paramount.

**Table 50: Key dates in the History of WL.**

<b>Year</b>	<b>Event</b>
1920	Company founded by present MD's grandfather
1987	First Exports (Europe)
1988	ZD, Sales Manager, joins WL
1992	WA, current Director, joins WL as a Contracts Manager
1999	Effort to increase exporting

### **6.3 Key Personnel**

There are three key management personnel within the company responsible for marketing and exporting. The three are DS (Managing Director), WA (Director) and ZD (Sales & Marketing). A description of duties and personal history is given below.

#### **6.3.1 DS, Managing Director**

DS started working for the company on the factory floor. At 53 years of age, he is the oldest person in the company. DS has many other business interests, including running a holiday home business, a clock company (external clocks), and dealing with insolvent companies. DS is also Chairman of his local Chamber of Trade, a Freeman of the City of London, and a Liveryman of the Plumber's Company. He was recently instrumental in raising £1.8 million for a community centre in East Northamptonshire clearly manifesting his community spiritedness.

The variety of DS's business interests, because of his desire to remain busy, was seen as not conducive to the company's well-being by a recent management consultant, hired by the company to assist in the restructuring of the company's management. Prior to the commencement of this case study, DS had his computer removed from his office as the consultant recognised that he was spending too much of his time checking on the day-to-day running of accounts, and double-checking on his employees and the factory- in essence duplicating other people's work. This has led to the company's management becoming more autonomous and allocation of responsibilities more clear-cut.

In the interview with DS, his long list of business interests suggested that he was always busy. The management consultant has however, convinced DS that if he were always busy he would not be doing his job properly. He has since tried to become more autonomous setting the example for the various divisional managers.

DS believes that the company's success is due to the quality of the (hand-picked) team he has brought together. He also believes in trade exhibitions as an ideal form of marketing as people need to "*feel, touch, and kick*" the product. The most recent foreign exhibition was in Germany, in March 1999. Reputation is seen as extremely important to business success and DS sums up the importance of reputation with the observation that although their equine (stable) products tend to be twice as expensive as those of other manufacturers, WL sells twice as much as other manufacturers. DS attributes this solely to the reputation the company has earned throughout its history.

DS is also very profit oriented, risk averse and strategically minded as is evident from his remarks:

(1) "*Profit, that's what we all sit here for.*"

(2) "*You need variety.*"

(3) "*You have to think to the future.*"

Statement (1) is self-explanatory. Statement (2) was made with reference to the need to have a multi-product business to survive and succeed. This reference to the importance of diversification stems from DS's belief in the reduction of risk that it provides. Statement (3) was made in reference to the importance of strategic planning.

DS's views on the exporting side of the business, which is solely through the Timber Buildings Division, and on their foreign customers are very clear-cut. DS believes to operate in Europe there is significant need to be proactive. He also believes that

adaptability is since there are many different cultures on the continent, some of which are very hard to understand. DS finds this especially with the Germans whom he finds very insular and demanding of products that are different and unique. On the other hand, he finds the Spanish more accommodating as they have a general appreciation for British products. Because of these differing European characteristics, when abroad DS believes it is important to be humble and to alter your character and presence so as not to offend. DS is currently encouraging his EU agents to push to increase sales because the market has been quite stagnant recently because of the strong British Pound.

As regards the future of the company, DS does not want to carry on the family orientation in its current capacity after he retires. He however does not to retire soon. DS believes that for the business to grow, different expertise is needed. This shows DS's fear of stagnation and is related to his belief in young people and their preference for "running".

### **6.3.2 WA, Director**

WA joined the company in 1992 as a Contracts Manager, overseeing the management of the company's different divisions. WA's employment history is wholly within the same industry. He had previously worked for a company based in Wellingborough, but his work was mainly in the City. The company manufactured its products in Wellingborough and constructed them in the general square mile of the City and Canary Wharf. When the company relocated to London, WA took an opportunity at WL when a vacancy opened. WA took up a position, previously held by the Managing Director and the Works Manager, to "shape-up" a few of the company's systems, especially with reference to the market segments the company was competing in (the standardised bulk market) and the more hands-on management style the company was operating under.

WA, prior to joining the company, completed a four-year apprenticeship at a local college in carpentry and joinery and all of his management training has been hands-on. He has noticed that for the company to succeed, management should manage and let others do their job. This is one of the reasons he believes in training apprentices in-house rather than external training because they can be trained in the company's own methods of operation and can then be left to "get on with it".

WA believes strongly in the company's dedication to quality products and service. His current role is one of an autonomous manager. This new role was essential because of the growth of the firm in the last few years. Prior to this, because of WA's hands-on

knowledge of the industry, if there was a need, he would work on the factory floor. But the increased size of the company makes this no longer possible.

Since WA joined the company, turnover has increased from about £2.8 million to almost £7 million for year-end December 1998. He, however, does not take sole credit for this but attributes it to the team, and the redirection in targets. Previously the company was operating on a local foundation and found itself competing with *“start-up garage guys...with significantly less overheads to recover in their prices”*. The company now operates at the top-end of the market in terms of quality, WA claims, *“there is always a market for quality”*.

WA has attributed the growth of the company to seeing beyond constraints:

*“...if you want to see restrictions you can see them, if you want to see beyond any restrictions that others are implying, then you can move with it, take the job to them, and that’s what we’ve done.”*

WA therefore believes a more proactive approach (taking the job to the customer) is needed if growth is to be achieved. Although the company has been successful recently, WA does not see this as the end of the effort:

*“So although we’re in this position we can see, still see, how to do the job better.”*

WA, as DS, is also profit-oriented, as well as sales and growth-oriented. He is, however, cautious in his approach. He believes the company will need stabilising over the next few years in order to be able to *“tweak and tie up all the bits and pieces for the next leap. The next leap is really to get to double figures in terms of millions of pounds” [turnover]*.

WA believes that restructuring is needed where heads of divisions will take a more hands-off role and concentrate more on managing. WA says this is needed so, *“We don’t... end up with a company full of busy fools”*.

WA sees the external factors which benefit the company the most are economic stability and its relationship to disposable income, and more specifically the effect mortgage rates have on the truss division. Because of these factors, a lot of WL’s planning is based on information from bank publications, and a lot of attention is paid to the general financial press.

WA considers that WL’s main market is London and East Anglia, although they do have customers across the UK. In terms of foreign operations, WA does not believe any other

option apart from indirect exporting will be considered because profits attained from any other option would not justify the costs. However to succeed abroad, WA notes that a suitable exchange rate and appropriate market size are essential.

In terms of other expansion plans, the company is investigating the option of purchasing the builder's merchant next door to the current offices and factory of WL. This is essential because of overcrowding at the current site, both in terms of production space and facilities for staff.

### **6.3.3 ZD, Sales Manager**

ZD joined WL in 1988 when the company was much smaller, with turnover just over £1.5 million, and *"...hadn't got any computers, it was very much a family run business"*. ZD was employed to implement and organise the IT and administrative side of the company.

*"...my role when I joined was really to sort of set-up the computer and the administration side of the sales office."*

Since then, her role has grown and she now spends more time out of the office, meeting with clients and agents, and arranging exhibitions. Prior to her employment with WL, ZD worked for a large international firm in administration, utilising her foreign language skills (French). ZD left this company because as stated in the interview:

*"...I felt very much that I'd got lots of skills but I couldn't go anywhere else in that company. So I was looking for something that was smaller but gave me an opportunity to have some input, direct input, so I moved here."*

ZD believes WL's main assets lie in three key areas:

1. The product they sell and the flexibility with which they serve the customer, matching customer needs to the product
2. The level of service offered is of the highest quality and there is commitment, so that the customers are guided through every phase, from the enquiry stage through to after-sales service
3. The quality of the product is unmatched in the marketplace.

ZD is also in charge of organising the exhibitions the company participates in. She believes that exhibitions are an important part of the business because they confirm market presence:

*"If you're not at the equestrian shows then they'll [potential customers] think you've disappeared out of the marketplace... we have to be there."*

One of the few constraints that ZD sees for WL is the location. Previous to the construction of a bypass route, the front of the factory was used as a "...vibrant show site. People were always stopping and calling in, but now the A 14 has bypassed us now we don't get any of that and as such we don't really get any passing trade."

This situation, one of the external contingent factors that has affected WL, means they now have to be more pro-active than previously.

In terms of the exporting operations, ZD attributes the current strategy, exporting through agents as critical because they undertake all of the interaction with the client and attain the necessary planning permission. WL is unable to have any interaction with the customer because as ZD states:

*"... we're very people light, so if we had to do that as well we wouldn't do anything" [export].*

ZD also considers exporting a less profitable option for the company because of the element of their profits that they have to give to the agent, and because the company uses the same price structure in Europe as in the UK market. The profit margin in exporting is therefore less than in the company's domestic operations. This does not, however, put ZD off of exporting as an option for the company, indeed a level of optimism is shown even though profit margins are low. ZD believes the company should continue to export:

*"Because, you know, with anything, you don't start off day one making a lot of money do you? But as the situation improves and we get a better relationship with X [agent] we can then put up our prices. But if you go there day one sky high, you don't build up that rapport do you?"*

ZD sees the nature of the product as one of the main difficulties for their exporting operations, as transport costs are very high because the customised nature of the product means that it is often bulky and difficult to fit into containers. Therefore, WL is constrained in market choice where:

*"...the minimum markets we (WL) can go to are constrained by the style and nature of the product and shipping costs." (ZD)*



To succeed in exporting, ZD believes that WL needs a different pricing policy. The current pricing policy is to sell from a UK price list plus a mark-up for the agent.

#### **6.4 Divisional Structure and Management Style**

WL is made up of five separate divisions, with four of them based at the main site in East Northamptonshire, and the other, the Fixings Division, being based in London. The five divisions are:

**Timber Buildings Division.** This division is concerned with the manufacture and construction of summerhouses, stables (equine buildings), and pavilions. Timber buildings was the original division around which the rest of the company was formed, it is however one of the smallest parts of the company now in terms of turnover. Turnover in this division is in the region of £1.3 million.

This division operates from a specialist joinery workshop where the customised buildings are manufactured and storage facilities are available. The division also supplies moulded fibreglass roofs, turntables, weathervanes, planters and heaters for its garden house range.

A previous customer has described their equestrian products as:

*“A quality product from a professional company- I'd recommend them to anyone”*

All of the manufacturing takes place at the 40,000 square foot factory and the equestrian products draw on the expertise in the other divisions of WL. WL bases its equine products on aesthetics and functionality, and believes its forte is in its ability to blend the product into the client's existing property.

One of the strong points of WL's equine operations is the amount of repeat business the company achieves; as the requirements of the customers change, they are easily accommodated by WL. This is in the sense that the equine buildings are designed in such a manner that additions and renovations are relatively easy. Some of WL's customers also allow their stables to be used as show buildings.

WL's attention to detail is a sign of its desire to maintain high levels of quality in its products. Even the nuts and bolts that are used in the assembly of the buildings are rustproofed, and the wooden tongues used in roofing are all individually painted to avoid any striped effects. As a result the buildings last over 35 years. The customised package that WL offers includes individual colour preferences and design to suit surrounding buildings as well. The company also supplies internal products and details such as

mangers and tie-rings. Hence the company is regarded as one of the leading manufacturers of timber stables and ancillary buildings

**Joinery (Bespoke) Division.** Mainly serving the construction industry, the Joinery Division has a turnover of about £1 million. The division was however more successful pre-1980s before the recession made business difficult. Overheads and costs were difficult to control because of the size of the company. A lot of business at this point was lost to one-man operations that had minimal overheads.

The division has built its reputation on its excellent joinery, and specialises in architectural joinery; it has invested in modern technology to complement the existing traditional craft skills that the workforce possesses. The division is able to couple authentic restoration with the modern conveniences of comfort and security. The division has achieved several British Standards and also shows itself attentive to the environment, using organic solvents whenever possible.

**Fixings Division.** Fixings is based in London with a turnover of about £3.5 million and is concerned mainly with maintenance for WL's customers. It is also used to feed the Bespoke division when the need arises. Because of previous work in the City and Canary Wharf, the company has based the Fixings Division in London for the convenience of its customers.

**Truss Division.** The Truss Division supplies the construction industry and has a turnover of £3 million. A niche market has been developed in what is essentially a standard product. WL seeks selected customers for whom it supplies a customised "roof package" rather than acting as a bulk manufacturer.

The division employs skilled designers using the latest CAD computer technology to produce cost effective designs. It supplies large-span commercial and industrial roof trusses and has achieved several British Standards

**Period Windows Division.** With a turnover of approximately £600,000 the division supplies and restores all types of period windows with detailing as well as providing for security and weatherproofing.

Overall turnover for the company is in the region of £8 million. Although the company operates what are essentially five separate divisions, there is scope for interdivisional support, both in terms of finance and labour, especially between its Timber Buildings Division and all other divisions.

The directors of the company run an essentially “open business”, where the employees can see the company’s accounting figures and are involved in the decision-making process. The multi-divisional structure, with each division having its own managers and allocated finance creates a form of internal competition that the Managing Director believes is good for the business, although it may hinder the company operating as a single strong unit in the marketplace.

The openness of the company was noticeable from initial visits where all the office doors were open and there was a constant interaction between the office workers. The MD said the doors are always open and communication was encouraged at all levels. Although the office was not open-plan, the culture it has bred is akin to it, and the only time doors are closed is when disciplinary action or interviews are taking place.

Although this open culture and expression of ideas is constantly encouraged, the Managing Director still makes the final decisions. This is especially evident in that DS still does not feel a great need to get deeply involved in international markets, and because of this ZD finds it difficult to persuade him to support their agents more and dedicate more resources to marketing abroad.

## **6.5 Exhibition Details**

WL attends several exhibitions a year, the most famous being the Chelsea Flower Show.

Shows attended in 1999 include:

- Country Living
- Badminton Horse Trials
- Malvern Spring Show
- Royal Show
- Hampton Court
- Tatton Park
- East of England
- Malvern Autumn

The company participates in these exhibitions themselves. Shows abroad, such as the recent show in Germany in March 1999, are attended by its agents. Both DS and ZD view the shows as an essential marketing tool as they, firstly, confirm the company's presence in the market, and, secondly, allow potential customers to "*feel, touch, and kick*" (DS *interview*) the product.

DS and ZD are the main parties that attend exhibitions, apart from the employees who assemble the exhibits in the UK. Either or both also attend the exhibitions abroad to support the agents.

## 6.6 Case Study Methodology

With reference to Chapter 4, which explains the case study procedures in detail, the exact procedures used for this case study were carried out as described below in Table 51.

**Table 51: Procedure Used for WL Case Study.**

Step	Procedure	Details
1	Contacted DS via letter to request meeting.	Initial letter to confirm response to original request and a brief introduction to the purpose and form of the case study method and the project.
2	Upon receiving no response to initial letter, telephone contact was made and an initial meeting set up to outline case study procedures.	Planning meeting arranged to sort details and request documentation available for inspection off-site and reference original questionnaire.
3	Planning Meeting: Site Visit 1 (1.5 hours)	Arrangement of site visit(s); Access to documentation; Establish scope for access to personnel for interviews; Establish scope for direct and participant observation; Establish level of follow-up needed and firms' requirements for feed-back; Obtain Background Documentation.
4	Site Visit 2	In-depth Interview with WA (1.5 hour recorded interview).
5	Site Visit 3	In-depth Interview with ZD (1 hour recorded interview).
6	Follow-up	Used for any off-site follow-up needed.

## 6.7 Industry Background

The most authoritative and comprehensive analysis of the Timber and Joinery Industry, of which WL is part, can be found in Market Reports by Key Note Limited. There are several sectors within the timber and joinery industry, including:

- Primary Processing (sawmilling and planing: £2.9 billion turnover)
- Semi-finished products (Panels: £1 billion turnover)
- Manufactured Products
- Builder's Carpentry and Joinery (£1.8 billion)

- Wooden Containers (£494 million)
- Other Wooden Products (£515 million)
- Wooden Furniture (£4.2 billion)

WL belongs to the Builder's Carpentry and Joinery sub-sector.

The Timber and Joinery market is largely affected by the general state of the economy. This is mainly due to Timber and Joinery's link to the construction industry and the construction industry's strong link to the general state of the economy. Currently the strength of the pound is seen as a good sign for the industry, with the size of imports the industry sustains. These imports are largely from outside the EU. The industry is also expected to grow over the next 3 to 5 years (Smith, 1998).

Despite this predicted growth, there have been disturbing trends in the market. Although wood "*remains a favourite material with customers*" (Smith, 1998: p.7), there have been trends away from using wood for the interior of buildings, with the construction industry attempting to minimise its use of timber. The construction industry has, however, recently recovered and this has had a spill-over effect on the sales of manufactured timber products.

For Builder's Carpentry and Joinery, the total UK market has been estimated at over £1730.8 million (estimates for 1996/1997) (Business Monitor MM20/ Key Note). This is approximately 200 times the turnover of WL. However, due to the scope this sector of the market encompasses, the actual picture may be obscured.

In terms of external trade, within the Timber and Joinery Industry, it is largely unbalanced, with exports approximately 20% of imports in the last few years. More specifically, Builder's Carpentry and Joinery's unbalanced trade is shown below in Table 52.

There is still a large external trade deficit, and in terms of imports, the Builder's Carpentry and Joinery imports mostly from Brazil and Indonesia. Sweden and Denmark are also important sources, mainly for the building industry and the DIY sector.

**Table 52: Trade Balance In Builder’s Carpentry and Joinery Sector**

<b>(£ Million)</b>	<b>1996</b>	<b>1997</b>
Exports	40.5	46.2
Imports	178.4	191.6
Difference	137.9	145.4
Exports/Import Ratio	0.227	0.241

Source: Overseas Trade Statistics/ Business Monitor MM20

Timber and Joinery’s place within the UK’s industrial make-up is relatively small, accounting for only 1% of all UK enterprises. Growth in the sub-sector of Builder’s Carpentry and Joinery is shown in Table 53. More specifically, and relevant to WL is the size of the Builder’s Carpentry and Joinery sector. Table 54 shows the size distribution of the sector.

**Table 53: Number of Enterprises in the Builder’s Carpentry and Joinery Sector**

<b>Legal Units</b>		<b>VAT Based Enterprises</b>		
1993	1994	1995	1996	1997
2563	2996	3715	3690	3950

Note: Due to changes in classifications in 1995, only 1995 to 1997 may be compared directly.  
 Source: Business Monitor PA 1003- Size Analysis of UK Businesses.

Within the Builder’s Carpentry and Joinery sector there are very few barriers to entry. The only relevant barrier is seen to be the possession of the necessary skills. Despite the low barriers to entry, the sector comprises less than 60% small enterprises. A figure closer to 80% would be expected (Smith, 1998) because of these limited barriers.

**Table 54: Number of Units/ Enterprises in Builders Carpentry and Joinery Sector in the UK by Size of Turnover (1993-1997)**

Turnover (£000)	Legal Units		VAT Based Units		
	1993	1994	1995	1996	1997
1-49	690	652	415	395	450
50-99	439	585	730	680	795
100-249	571	682	1105	1095	1080
250-499	329	429	625	645	725
500-999	252	311	425	415	450
1000-4999	235	280	360	380	390
5000+	47	57	55	80	60
<b>TOTAL</b>	<b>2563</b>	<b>2996</b>	<b>3715</b>	<b>3690</b>	<b>3950</b>

(Source: *op cit.*)

Although there is a lower percentage of small firms than would be expected, the percentage of large firms is as expected. WL, with turnover in the region of £5 million in 1997 (See Table 58) would be classified as large in this context. Despite the large amount of enterprises represented above, employment in the sector is approximately only 42,000.

In terms of geographical distribution of Wood and Wood Product Manufacturers by region, Merseyside has the least number of enterprises (150) and the South East has the most (1085). Table 55 shows the full distribution across the UK, where WL's main market, the East Midlands and the Eastern counties, has over 18% of UK enterprises.



**Table 55: Geographical Distribution of Wood and Wood Product Manufacturers (1997)**

Region	Number	Percentage
North East	310	3.5
North West	905	10.1
Merseyside	150	1.7
Yorkshire & Humberside	915	10.2
East Midlands	740	8.3
West Midlands	875	9.8
Eastern	900	10.0
London	650	7.3
South East	1085	12.1
South West	810	9.0
Wales	435	4.9
Scotland	855	9.5
Northern Ireland	330	3.5
<b>TOTAL</b>	<b>8960</b>	<b>100</b>

(Source: *op cit.*)

A small number of large firms appears to dominate the market in terms of suppliers to the industry and in most of the industry's sectors. The supply of materials is dominated by 355 firms with turnovers in excess of £5 million (1997). Companies in the lower category (£1 million to £4.99 million) number over 1300.

Competition in all sectors "... is intense and there has been a high degree of consolidation" (Smith, 1998: p.35), a trend that looks set to continue where in the future a highly concentrated industry is expected. WL does not appear to experience this intense competition. This is probably due to its dedication to the top-end of the market in terms of quality of product and service.

**6.7.1 WL's Place in the Industry**

The main players in the industry and companies similar to WL are shown in the tables below. There are four other companies in the UK of similar size to WL, and from Table 56 below we can see the relative position and performance of WL.

**Table 56: Peer Listing of Companies closest to WL based on Sales (most recent financials)**

<b>Company</b>	<b>Location</b>	<b>Sales (£000)</b>	<b>Pre-Tax Profit* (£000)</b>	<b>Net Worth* (£000)</b>	<b>Number of Employees</b>
PB Timber	Malvern	7,416	(2,041)	(1,622)	92
Balticpine Timber Corp. Ltd.	Penzance	7,049	427	209	160
<b>WL</b>	<b>Northants.</b>	<b>6,873</b>	<b>204</b>	<b>891</b>	<b>96</b>
Flocklynn Ltd.	Huntingdon	6,608	340	2,428	125
Asset Manu. PLC	Cambridge	6,605	(13)	594	81

\*Figures in brackets denote negative values.  
Source: Dunn & Bradstreet (1999)

From Table 56, WL can be seen to be performing well relative to similar firms within the industry. Although in terms of sales WL is third in the table, in terms of net worth and profits it is performing well. Table 57 shows WL's position in terms of the industry as a whole.

**Table 57: WL’s Position within UK Builder’s Carpentry and Joinery Sector (aggregates based on 91 companies’ most recent financials)**

	Percentiles					Number of Firms
	WL	25 <sup>th</sup>	50 <sup>th</sup>	75 <sup>th</sup>	90 <sup>th</sup>	
Sales*	6,873	5,244	7,842	15,912	29,061	74
Pre-tax Profit*	204	3	219	434	1,476	89
Net Worth*	891	452	1,008	2,188	6,073	91
Sales/ Employee	1	1	1	2	940	72
Employees	96	82	120	164	387	91
Total Assets*	2,852	2,254	3,586	6,456	17,070	91
Pre-Tax Profit Margin (%)	3.00	0.00	2.90	6.10	9.40	74

\*Figures in £000.

Source Dunn & Bradstreet (1999)

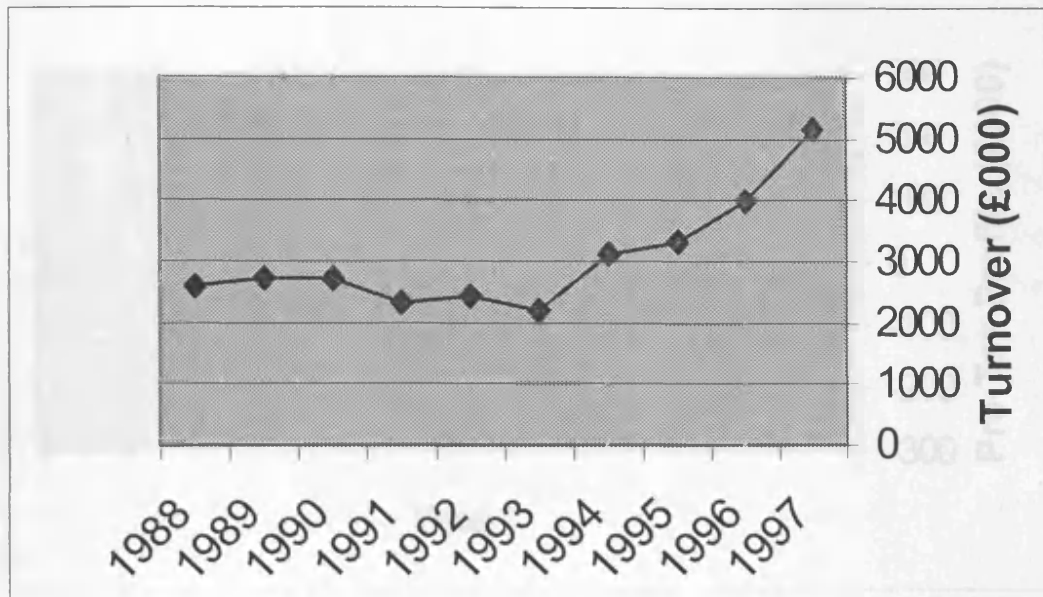
Table 57 shows that WL’s position within the industry is towards the bottom end of the market in terms of size (based on number of employees), sales, net worth and total assets. This would be expected from the industry structure that was described above, with few smaller companies seen in the industry. The most interesting figure above is the pre-tax profit as a percentage of sales, 3%. This figure puts WL in the top 50% of companies in the industry and confirms WL management’s claim that they price significantly above their rivals. This indicates the effect the supply chain has on WL’s business, and stresses the importance they place on the demands of their customers for high quality products and service, resulting in the end in higher profit margins than their similarly sized competitors.

## 6.8 Company Statistics

The following table shows details of the company's accounts over the last decade.

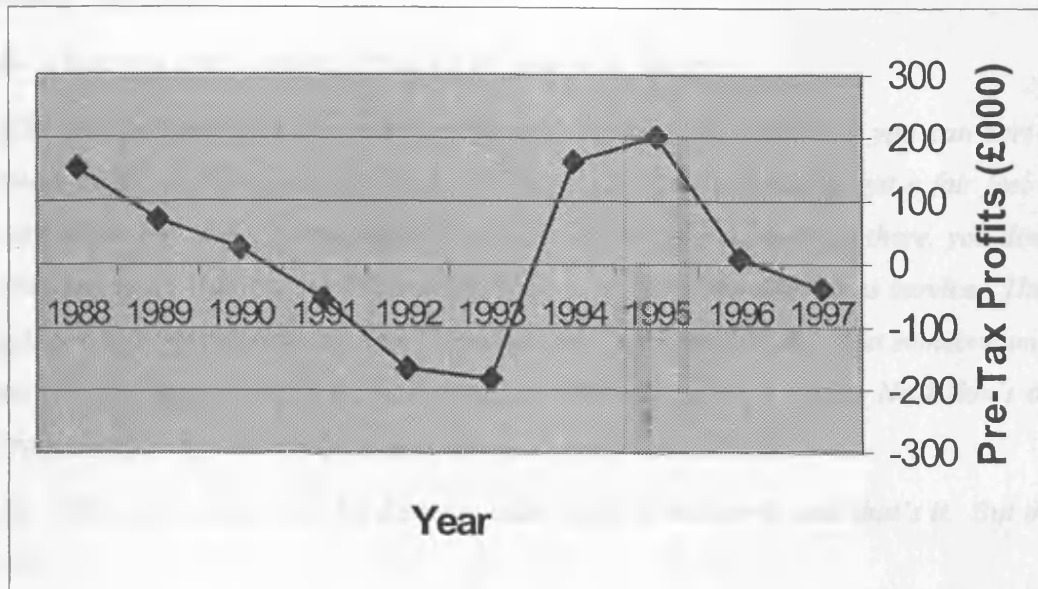
**Table 58: WL Financial Information (1988-1997)**

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Turnover (£'000)	2598	2736	2714	2329	2431	2207	3127	3324	3992	5163
Exports (£'000)	-	22	77	126	194	109	67	164	94	41
Pre-Tax Profit (£'000)	152	71	26	-54	-165	-181	163	202	9	-40
Operating Profit (£'000)	165	82	39	-47	-158	-177	179	110	38	17
Trading Profit (£'000)	215	153	111	18	-87	-119	215	168	122	137
Directors Remuneration (£'000)	113	183	172	186	170	135	85	119	166	180
Employees Remuneration (£'000)	799	849	891	865	912	760	902	962	1204	1401
Value Added (£'000)	1227	1299	1291	973	920	720	1211	1230	1451	1684
Fixed Assets (£'000)	405	458	436	404	386	486	532	746	1034	1044
Total Current Assets (£'000)	799	852	831	673	627	628	988	1032	1497	1473
Total Assets (£'000)	1204	1310	1267	1078	1024	1115	1521	1779	2532	2518
Total Current Liabilities (£'000)	610	682	622	605	707	739	959	931	1443	1304
Total Assets - Current Liabs (£'000)	594	628	645	473	317	376	562	848	1089	1214
Total Liabilities (£'000)	545	637	710	648	612	707	831	1078	1755	1782
Capital Employed (£'000)	594	628	645	473	317	376	562	848	1089	1214
Net Worth (£'000)	567	600	619	466	317	284	443	735	777	736
Pre-Tax Profit Margin	-	-	-	-	-	-8.2	5.21	6.08	0.23	-0.77
Turnover/Total Assets	-	-	-	-	-	1.98	2.06	1.87	1.58	2.05
Turnover/Fixed Assets	-	-	-	-	-	4.54	5.88	4.46	3.86	4.95
Total Debt/Net Worth	-	-	-	-	-	109.86	93.91	56.05	113.13	94.7
Average Remuneration (£)	-	-	-	-	-	11692	13667	13743	16270	17085
Profit/Employee	-	-	-	-	-	-2785	2470	2886	122	-488
Turnover/Employee	-	-	-	-	-	33954	47379	47486	53946	62963
Capital Employed/Employee	-	-	-	-	-	5785	8515	12114	14716	14805

**Figure 6: Turnover (£000) for WL (1988-1997)**

The extent of WL's growth in the last ten years is manifest in its growth in turnover, which has nearly doubled. This increased turnover has been attributed to growth in the Fixings and Truss divisions. Profits however, have only recently recovered to their 1988 level (see Figure 7). The slump in profits is attributed to the recession during this period. The recent recovery is mainly due to the major restructuring and re-targeting of objectives within the company.

WL's operating approach is largely unplanned, in the sense that an agent can contact WL at any time with an order. The process operates in three stages. Firstly, WL receives an enquiry from its overseas agent; then WL provides plans and estimates to the agent. If this is acceptable to the client and planning permission is received, an order is finally placed and work commences. The products are completed and, unlike in the UK, this is where WL's involvement ceases. The agent handles after-sales service. This appears to be one of the main reasons that WL's decision-makers are apprehensive about any degree of internationalisation. The fact that the provision of after-sales service and dealing with the end-user is expensive and difficult appears to be acting as a barrier to WL, because of its commitment to providing a quality product and service to their customers. There appears to be a belief that operating in any other way would not be in WL's tradition. An excerpt from an interview with Z/T shows these beliefs when discussing difficulties with a European agent:

**Figure 7: Pre-Tax Profits (£000) for WL (1988-1997).**

### 6.9 Export Record

WL exports indirectly via agents, mostly to mainland Europe. The agents that represent WL in Europe are WL's sole representatives in Europe, and the company does not employ its own representative abroad to oversee agents because of the expense involved. Overseeing of agents is the job of ZD and is UK-based.

WL's exporting operations are largely unplanned, in the sense that an agent can contact WL at any time with an order. The process operates in three stages. Firstly, WL receives an enquiry from its overseas agent, then WL provides plans and estimates to the agent. If this is acceptable to the client and planning permission is received, an order is finally placed and work commences. The products are completed and, unlike in the UK, this is where WL's involvement ceases. The agent handles after-sales service. This appears to be one of the main reasons that WL's decision-makers are apprehensive about any deeper form of internationalisation. The fact that the provision of after-sales service and contact with the end-user is expensive and difficult appears to be acting as a barrier to WL because of its commitment to providing a quality product and service to their customers. There appears to be a belief that operating in any other way would not be in WL's tradition. An excerpt from an interview with ZD shows these beliefs when discussing difficulties with a European agent:

*ZD... we might as well be selling direct to the customer, because what he comes up with is usually impossible.*

*JL: Have you ever thought of that as an option in Europe.*

*ZD: No, because you've got the cash risk haven't you. The way you can sort of do a rough check on somebody, if you go to site in this country, you've got a fair feel whether they've got the sort of money you're talking about. If you never go there, you don't know who they are, I don't think WL are into that. Also, and the after sales service. They might call and say 'by the way my doors dropped off', what do you do? Put someone on a plane and it costs you 7 or 8 hundred pounds to fix a bolt on a door. No I don't think it's feasible.*

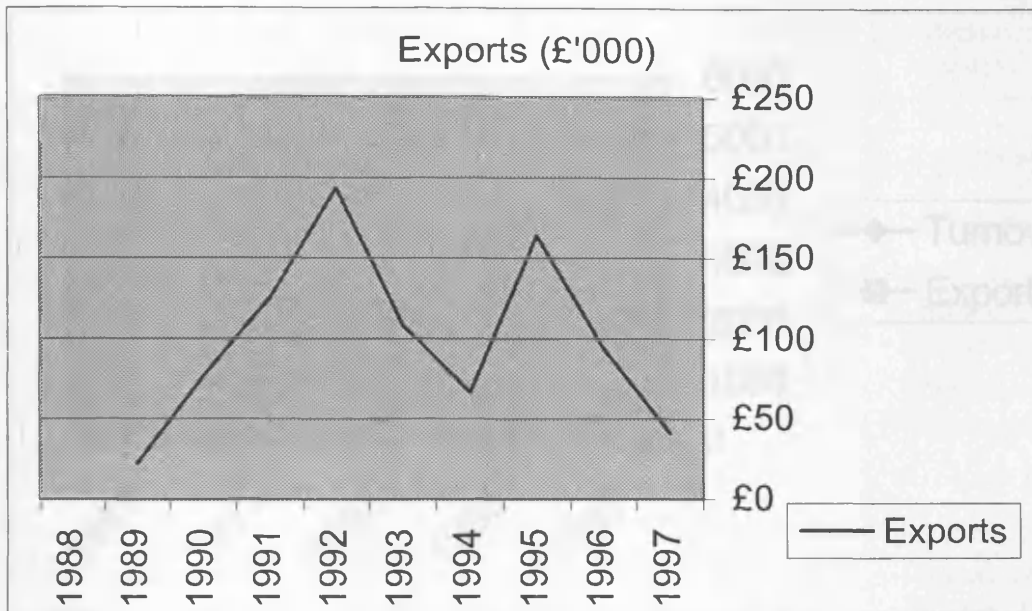
*JL: Other companies, market Europe-wide, build it, deliver it, and that's it. But that's not WL?*

*ZD: Yes, but they're [i.e. WL's customers] not buying something off a supermarket shelf. If you look at our equestrian brochure, they're buying something that's going to blend in with their property, that's going to last a long time, it's made for them. They are not being told you've got to have four loose boxes, then your tack room then your stores. They're having what they want.*

The above extract indicates WL's commitment to providing a quality service and product to their customers; any deeper internationalisation could be detrimental to these ideals, and this is perhaps one of the main factors preventing WL's further internationalisation.

Figure 8 below shows the variation in export revenue for WL since exporting commenced, with the first export figures published in 1989. The fluctuations in revenue gained from exporting have been attributed to several factors. The steep increase in revenue gained from exporting between 1989 and 1992 was attributed to the buoyancy of the main export market at the time, Spain. However, domestic problems in Spain led to a rapid decline in orders from the Spanish agent. The subsequent increase (1994 to 1995) has been attributed to the EU pulling out of a recession that lasted longer than it did in the UK. The decline from 1995 has been blamed on the strong pound.

Figure 8: WL Exports (1989 to 1997)



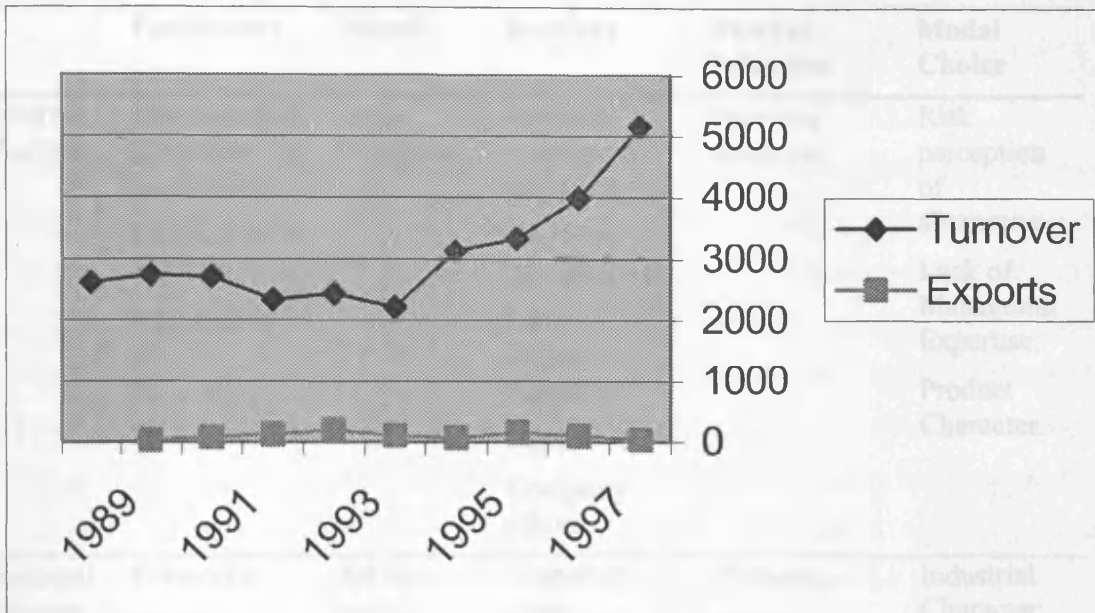
From Figure 9 below, the proportion of exports to turnover can be seen to be small, especially since the upturn in turnover in 1995. The upturn in turnover is in part due to the strength of the pound reducing the raw material costs, as the bulk of timber was imported. This small proportion of exports to turnover is attributable to WL's philosophy of service and quality, leading to a concentration on domestic sales.

Despite the reluctance to internationalise more, there are ambitions by DS to export to the USA in the future. The main reason behind this decision seems to be the strength and size of the equine market in the USA. This venture may, however, prove difficult for WL due to the internal barriers constructed and transport costs. If service provision to clients is difficult in continental Europe, it will be several times more difficult in North America.

The next section will relate back to the issues identified in the previous chapter and analyse the effect structure and the internal and external contingent environment have had on WL's international operations.



Figure 9: WL's Turnover and Exports (£'000)



### 6.10 Main Influences on WL's Internationalisation

The main issues from the results of the questionnaire survey and the literature review revolve around understanding the roles played by industry, previous international experience, perceptions of competition, age, and technology. The roles played by these issues will be analysed below, to specifically show how they facilitated the company's internationalisation, stimulated internationalisation, acted as barriers, and influenced market selection and modal choice.

#### 6.10.1 Facilitators of WL's Internationalisation

**Industry:** The industry that WL operates in, timber and joinery, does not appear to have directly acted as a facilitator of their international operations because of the industry's domestic orientation. However, the structure of the industry has provided a niche for WL, the high-quality end of the market, and has provided WL with the opportunity to exploit this end of the market abroad. Because of its position in the industry, WL has the potential to exploit its reputation abroad where there is a market and because they possess the necessary minimum competencies with which to succeed. However, the possession of these competencies is not deterministic in the sense that they will therefore internationalise. The realisation of this potential is dependent on many other causal factors that are discussed in the rest of this section.

**Table 59: Factors Important in the Internationalisation of WL**

	<b>Facilitators</b>	<b>Stimuli</b>	<b>Barriers</b>	<b>Market Selection</b>	<b>Modal Choice</b>
Internal Factors	Possession of Minimum Competency; Dedication to quality; Reputation.	Profit Perception	Adverse managerial attitudes; Negative perceptions; Lack of Financial Resources; Age; Company ethos.	Previous contacts.	Risk perception of alternatives; Lack of Managerial Expertise; Product Character.
External Factors	Networks; Good Domestic Market; Available Markets.	Ad hoc order; Available Market.	Transport costs; Exchange rates; Lack of Appropriate Partners.	Distance; Client Followership; Availability of Appropriate Partners; Market Size;	Industrial Character;

**International Experience:** The level of international experience by the decision-makers also facilitates the company’s international potential. ZD, the only key player to have experience of international marketing outside of WL, would like to see further expansion of exporting, but in line with the company’s ethos, she does not see any role for WL outside of indirect exporting. ZD would like a greater dedication to a support network for the foreign agents, along with publication of brochures in foreign languages to fully market WL’s product abroad. However, this seems the limit to which WL will go to internationalise, as the main decision-makers, DS and WA, do not have her dedication to international marketing. This shows the effect of international experience, as without ZD these ideas would never have been tabled. The effect of a lack of international experience is shown by DS and WA’s reluctance to take the paths recommended by ZD. The potential is there for WL to internationalise more, using ZD’s experience and language proficiency, but as discussed above, potential is not action.

The company's commitment to participating in exhibitions is also important in facilitating the exporting process. These exhibitions provide a medium through which WL remains visible in the marketplace and at such shows as Chelsea Flower and Hampton Court, are exposed to an international audience.

**Competition Perceptions:** As discussed in the previous chapter, perceptions of competition levels did appear to be markedly different between exporters and non-exporters. The cause of this was, however, unclear, i.e. did perceptions that competition levels were low lead to undertaking international ventures, or did these exporting companies begin to export to avoid high competition levels? In WL's case, the fact that it possesses a good domestic market facilitates its internationalisation because the reputation it has achieved encourages the view that competition is only moderate both regionally and nationally. Prior to exporting the company did view its market as highly competitive because their rivals had significantly lower overheads. By altering their target market, WL was able to move into a less competitive sector of the market. The company therefore, by altering its target market to a less competitive sector has facilitated its internationalisation, and by breaking out of a competitive environment, the company's perceptions of competition levels have changed. The answer to the question above for WL is therefore that WL altered its approach to the market to avoid high competition and this has facilitated its current exporting.

**Age:** The age of the company was not significant in facilitating international activity for WL though indirectly it did as the company's good reputation over the years has facilitated international activity thanks to its satisfied customers. One of its initial exporting forays was the result of a recommendation by a previous client to a current European customer. Therefore, age does play a part, but not in the fashion proposed by the Stage Approach discussed in Chapter 2, where the learning curve is seen as important in the internationalisation process. Age plays an indirect role in the facilitating of WL's internationalisation because over time contacts and reputation have developed.

**Level of Technology:** Technology has facilitated internationalisation by allowing WL to attain the level of competency needed to exploit the international market. WL is, however, one of the last companies in its sector to employ CAD/CAM technology.

Therefore, there are several key factors that have facilitated WL's internationalisation. The factors internal to the company include the nature of the product, the company's

philosophy of quality in service and manufacturing, that the product is custom-made to suit the client's needs and the value of the product's reputation.

External factors that have facilitated international activity include the availability of an extensive market for the product and, at inception, a buoyant Spanish market for its equine products. The formation of the EU did not influence WL's entry into the international market, but the easing of export bureaucracy has assisted. The state of the economy acts as both a facilitator and barrier. High exchange rates have led to lower costs as importing costs are lower, and therefore it is easier to compete abroad. However, with a high exchange rate, WL's exporting becomes more expensive and therefore acts as a barrier.

#### **6.10.2 Stimuli of WL's Internationalisation**

**Industry:** The stimulus for any exporting venture for WL is *ad hoc*, in the sense that they can receive an order from their foreign agents at any time. However, its domestic marketing is proactive because of the domestic orientation of the industry, and since the bulk of WL's business is domestic it must be proactive to survive. Because of this competitive constraint domestically, WL cannot dedicate resources to being proactive abroad. The role played by industry is therefore that it contributes to the stimulus being *ad hoc*.

Another stimulus to WL's internationalisation is the nature of the industry in which it operates, where there is an available market internationally to exploit and attain profits.

**Previous International Experience:** The role of previous international experience in stimulating exporting for WL rests on the experience of ZD, who has a less negative perception of the international market. ZD has stimulated the company to become more international, and has tabled plans for greater support of its agents to increase exports to continental Europe. ZD's international outlook, where ZD considers herself European rather than British, has been one of the main stimulants to WL's internationalisation.

**Perception of Competition Levels:** As discussed above, competition levels been a stimulus to WL's internationalisation. The perception of competition levels has led WL to attempt to exploit the European market because it does not perceive that its position is threatened by operating internationally through agents, although it believes that operating through any other mode would threaten its domestic position.

**Age:** The fact that WL is eighty years old appears to have stimulated exporting in that the company has over the years acquired a reputation for providing a quality product and this has led to the company receiving orders from abroad.

**Level of Technology:** The level of technology at WL has had little effect in stimulating its exporting activities.

In summary, the actual triggering of the export process for WL stems from its reputation with existing clients. Originally, WL's exporting was triggered by domestic client's recommendations to foreign residents. This led to *ad hoc* orders from abroad. Currently, WL still operates in this fashion, where it is up to their agents to locate orders; the timing and location are out of WL's control.

### **6.10.3 Barriers to WL's Internationalisation**

**Industry:** The main industrial barrier to WL is that the industry is domestically orientated and this has resulted in it having a pool of labour with little international experience. The second industrial factor is the nature of the product: the difficulty in transporting the buildings has constrained WL in the markets it can serve.

Transport costs are a barrier to greater success in WL's international operations. Because of the nature of the product, shipping costs per item are considered high, constraining WL to within very tight geographical boundaries. Despite WL's ambition to push into the USA market, any push will be hampered by exorbitant shipping costs. Therefore, according to ZD, for WL:

*"The way we [WL] can expand is really hampered by the nature of the product. Fitting it into containers and things like that. It's obvious... you can't go to America because the shipping costs would be exorbitant. And it's very difficult to get a building such as the ones that we're offering into a container. If you were selling something that was containerised, yes, then I can understand that, you're selling internal partitions then you can load those into a container quite easily. The cost per item wouldn't be too exorbitant in a container. But it's quite difficult to load a building into a container. So the minimum markets we can go to are constrained by the style and nature of the product and shipping costs."*

Another industrial constraint is the significant lead times in manufacturing, which can be as long as six months. Because of significant lead time the company is constrained by the exchange rate risk, where the profit expected from a quoted price at the time of the order

can be significantly different from the actual profit attained, should the exchange rate fluctuate greatly.

The actual size of competitors and a trend towards consolidation in the market acts as another barrier. Competing on a bigger scale internationally is unfeasible for WL and if this were attempted, it might lead to the company over-committing resources and leaving itself vulnerable to this consolidation trend.

**Previous International Experience:** The lack of international experience by the two directors also constrains WL's internationalisation because their attitudes to the international market are negative, unlike ZD's. This is because the two directors are embedded in the industry in which they have worked from the shop floor up to their current positions. They perceive the level of risk attached to deeper internationalisation as higher than it may be and therefore make little attempt to investigate other internationalisation options.

**Competition Perceptions:** The fact that WL perceives regional and national competition as moderate acts as an internal barrier because the company appears secure enough not to have to export and become involved with all the attached risks. The directors also view international competition as high.

**Age:** The age of WL acts as a barrier because the company has become embedded in the domestic market. With reference to the results of the questionnaire survey results in Chapter 5, younger firms were involved in export markets for a greater proportion of their existence. The age of the company itself can therefore be viewed as a constraint. Since its formation, and without the prospect of ease of international trading, as presented by the EU, company procedures, networks and ethos have developed to cater for the domestic, and mainly regional, marketplace. The expansion in worldwide trade, and the theoretical ease of exporting to the EU has had no effect on WL because of the procedures in place. Although WL employs foreign agents and does sell abroad, the levels of exporting are minimal.

**Technology:** WL is constrained in its internationalisation because it has only recently invested in new CAD/CAM technology, which has brought it up to the industry standard. Because it has therefore, only recently come up to the industry standard, it has not had the time to utilise its newly acquired expertise to the full, and is not able to compete on an even keel abroad. One of the benefits this new technology will bring WL is that it will

reduce the lead times mentioned above and therefore reduce problems that exchange rate variations may have.

There are several other constraints to WL's internationalisation. One of the main constraints is the directors' dedication to quality of product and service provision. There is a general feeling that this is unachievable in distant markets. WL's reluctance to internationalise further is firmly grounded in its dedication to service and quality. WL has chosen a market sector where it can compete with its main rivals domestically. Competing in the mass/bulk market would be inconceivable for WL, as it does not have the appropriate resources. The market sector it has chosen is unsuitable to the expansion sought by other firms.

The advance into Europe does not seem as a first step in a fuller internationalisation of the company. There are no concrete plans to advance further and any increase in orders will only come from the actions of its foreign agents, over whom it has little direct control. As noted above, however, WL is attempting to change its structure in order to advance. Despite the changes made, however, the company is expected to maintain a domestic market orientation.

Further, the dedication to quality of service and product hampers WL's internationalisation by constraining them to strict geographical boundaries and limited exporting through agents.

Although the desire to acquire profits is a primary aim of the decision-makers, certain internal constraints, and general external constraints have hampered extensive international expansion.

An internal barrier for WL is the company's inability to manage more intense production because of the hands-on nature of its production process that the company has nurtured. The decision-makers note that there is a need for more restructuring, stabilisation and managerial autonomy if the company is to advance.

In terms of the general economy, high exchange rates will inhibit exports, but assist in the reduction of costs with cheaper imports. This therefore feeds back into the company's domestic orientation and embeddedness in the domestic market.

Other problems experienced by the company involve exchange rates on two fronts. Firstly, the current strength of the pound has been responsible for the recent stagnation in exports

as shown in Figure 8. Exchange variations pose significant problems for WL from the perspective of forward planning.

This leads to the second problem with exchange rates. The fact that the agent may incur losses due to these exchange variations will deter agents from working for WL. The case of WL's main agent in Spain is an example of this problem. Due to the strength of the pound, the Spanish agent was expecting to make 40% losses:

*ZD: Because, you see, our orders take six months to come through usually, minimum. ... our agent quotes one price. In that time if the pound, the exchange rate, changes, he's lost out. I mean how is he going to make a commitment to us. Forget it. Our poor Spanish agent... he was expecting to sell and make a 40% loss. Nobody's going to support you.*

The solution to this problem is the single currency, and ZD believes it will almost certainly solve the problem.

Other difficulties experienced by WL are rooted in the nature of its business and the cultural differences across Europe. Because the very nature of the exporting business is to provide custom-made equine building products, problems are compounded. Because of cultural differences, WL's job is made difficult by the needs of some of its clients. The descriptions provided in the interviews with WL, of the different nationalities in Europe, show this. The German market is recognised as the most difficult.

*ZD: ... the German market is very individual. Most other markets we've been able to tweak our standard product but the Germans don't want to know. They want something German.*

On the other hand, the Spanish market, because of an admiration for British products, will take products from WL that are only slightly 'tweaked', and the British, on a whole, can be 'talked out' of wanting changes.

Another difficulty involves the agents who are operating on its behalf. The agents can produce difficult specifications for manufacture. This has been compounded by European agent's unwillingness to visit the UK to appreciate the scope of WL's manufacturing capabilities. The difficulty is then discovering the 'right' agent.

*ZD: I think the main difficulty is finding the right agent. And I think our experience in Germany has proved that. Finally...we've found the right person who knows something about the buildings, knows about the equestrian market, knows the German market like the back of his hand and it makes our life easy, and really we're not making fantastic profits*



on it but the input we have to give is minimal. Whereas the French agent, he knows nothing, we might as well be selling direct to the customer, because what he comes up with is usually impossible.

ZD: And you want somebody who is right ... and somebody who's not prepared to ...come over here and look at our market, you know is a waste of time from day one.

To recap, the main barriers/difficulties experienced by WL in exporting and deeper international activity are as follows:

- A desire to maintain quality and contact with its clients which constrains deeper international involvement
- Exchange rate fluctuations that act as a risk factor and also lead agents to be reluctant to work with WL
- Appropriate agents are difficult to find
- Resource commitments are prohibitive to deeper international involvement
- Cultural differences across Europe lead to unwanted difficulties in manufacture
- Transport costs and logistics are difficult because of the nature of the products

#### **6.10.4 Factors Affecting WL's Market Choice**

Of all of the issues above, the nature of the product is the only one to influence market choice for WL because the bulk of the product makes it expensive to transport, therefore constraining WL to exporting to near-Western Europe. Shipping to other more distant countries would prove too costly.

For WL, market choice is also determined by the discovery of a suitable agent, as discussed above. The location of the 'right' agent will determine market choice, so in this way market choice is exogenous to the company.

#### **6.10.5 Factors Affecting WL's Modal Choice**

The effects the issues identified above have on WL's modal choice are shown below:

- *Industry* affects modal choice because of the domestic orientation of the industry; the directors have little *previous international experience* and this has led to negative perceptions of the international market, leading to preference for an indirect association with the international market.

- Because WL *perceives competition* to be moderate regionally and nationally in the sectors it competes in, it is more inclined to exploit this element of its business rather than compete more directly in the more competitive international market. It therefore prefers to export through agents because it does not have to direct significant resources towards European marketing.
- The *age* of WL has affected its modal choice because over its 80-year history the company has become embedded in the domestic market. Because of this the company does not have the facilities or procedures in place with which to cope with any other form of international market involvement apart from indirect exporting.
- *Technology* levels do not appear to have any effect on the modal choice of WL.

WL's dedication to quality of product and service was discussed above. However, the desire to maintain this quality is not shown in its modal choice, as indirect exporting does not allow for the quality of service desired to be supplied, as discussed above. Modal choice is therefore dictated by the costs incurred by choosing any other mode. Because of this commitment, rooted in the overall hands-on philosophy of the company, WL is reluctant to expand internationally. This is not to say it will not increase exports in the future, it will however not change mode due to costs. The possible directions for WL are to export directly, meaning either a base in Europe or a European travelling salesperson representing the company directly; setting up production facilities abroad; or entering into an alliance or joint venture abroad. The option of setting up production facilities abroad will, however, prove too expensive to undertake, and more importantly, goes against the ethos of the directors because of the loss of control this option entails.

## **6.11 Structures and the Contingent Environment**

In relation to the theoretical framework of the present study, a deeper understanding of the causal influences can be provided by a critical realist analysis. This section will provide an overview of the main structural and contingent influences on WL's internationalisation pattern. The external contingent environment is analysed first.

### **6.11.1 The External Contingent Environment**

The external contingent environment are events external to the company that have affected their international operations. The external contingent environment revolves around

several conditions/events that are external to the company. In brief, these conditions/events are as follows:

- The domestic orientation of the industry and current trend for consolidation in the industry
- High domestic competition in most sectors
- The lack of appropriate foreign partners
- Customer demands in different foreign markets
- The state of the UK economy
- The state of the international economy and specific foreign economies

The effect of the external contingent environment is therefore on three levels: the industrial level, the domestic economy level and the international level. From the description of the industry, the two factors that have influenced WL's actions are the domestic orientation of the industry, and the trend towards consolidation in the industry, with the former being the more important of the two influences. The domestic orientation of the industry has led WL to follow suit in this respect. Because of this factor, and the orientation of the UK timber industry as a whole, workers and managers within the industry lack international experience.

The other factor that is related to the timber manufacturing industry is its trend towards consolidation at present. Because of this prevalent threat within the industry, WL is reluctant to over-stretch its resources by committing too extensively to the international market.

The lack of appropriate international partners is another factor that has curtailed WL's exporting operations. The main problems that WL has with international partners are the agents' inability to provide practical specifications, the agents' reluctance to visit WL's manufacturing operation in the UK, their lack of knowledge of the industry, and their inability to provide the end-user with adequate after-sales service. WL has difficulty in locating appropriate agents, and the one that it has located in Germany is considered a godsend.

Another important external factor that has influenced WL's approach to the international market is the varying demands of foreign customers. Because of the difficulties in following the complex specifications provided by some European nationals, WL is

reluctant to internationalise deeper. This contingent factor coupled with the desire to retain profits makes some specifications unprofitable. This shows how structure, coupled with contingent circumstances, will have an effect on subsequent outcomes. The outcome here is the lack of commitment WL manifests towards the international marketplace.

External economic factors also affect WL's internationalisation programme. These external economic factors include the state of the UK economy, the international economy and the economies in the countries to which WL exports. Since the construction industry is closely linked to the general state of the economy, WL suffers a drop in demand for its products when the UK suffers adverse economic conditions.

The international economy has an effect on WL's actions in terms of exchange rates and individual foreign market conditions. Firstly, the strength of sterling in recent years, and the general exchange risk attached to trading with foreign agents, has affected WL's perception of exporting. Because of the strength of the pound WL is having great difficulty in making its products appear attractive and affordable. Because of this factor, WL is also having difficulty making the product appear attractive to agents. These factors, coupled with the experiences in the Spanish market in the early 1990s (where its agent was expecting to make a loss of 40% on WL products because of problems in the Spanish economy), have all contributed to the negative perception that WL has of the international marketplace.

### ***6.11.2 Internal Contingent Environment***

There are several internal contingent influences that have affected WL's international operations. These internal contingent influences spring from the nature of the firm, the management style employed, business strategy, and the character of the decision-makers.

The nature of the firm refers mainly to the age of the firm where the company has become embedded in the domestic market, forming customs and procedures within the company's structure which have made international operation difficult.

The management style of the firm is of a hands-on nature, where directors are more concerned with managing operations than with stressing an outward strategic approach. Because of this the management has limited itself by limiting the time they can dedicate to planning international ventures.

The business strategy that the firm has employed centres on a differentiation strategy (Porter, 1980, 1985; Reid, 1993), where the firm attempts to emphasise the uniqueness of

the entire package it delivers- a high quality product and after-sales service. Because of this strategy, the directors do not believe that they can provide this “package” abroad, leading to a lack of commitment to the international market.

In terms of personal characteristics of the directors, the main issues stem from a lack of previous international experience and the importance the directors place on personal contact with customers and agents. Because the directors lack previous international experience they are not as accepting of the international marketplace as the sales manager, ZD. The greater power in decision-making by the directors means the sales manager’s views on greater international involvement are often ignored.

### ***6.11.3 Structural Influences***

The main structural influences on WL’s operations the capitalist mode of production and the supply chain. The capitalist mode of production as structure is concerned mainly with the retention of surplus capital, i.e. the main aim of operation is to retain profits, and is made up of several different actors in role-positions relationships. These actors include workers, managers and customers, all possessing their own powers and liabilities because of their position within the capitalist structure.

The supply chain on the other hand is centred around catering to the demands of customers/agents on the one side and suppliers on the other. The supply chain as structure influences WL as the decision-making process is centred on providing a high level of quality in both product and service.

The role of the capitalist mode of production in the decision-making process of WL is evident in several respects but primarily in its desire to maximise profits as shown in the quote below:

*“Profit, that’s what we all sit here for.” (DS Interview)*

The role of the capitalist mode of production is seen clearly in its attitude towards international markets. Although WL would welcome large profits from foreign sales, it is not willing to dedicate resources or time to the international market. This reluctance is because of cash risks, costs that would be incurred to operate successfully abroad, and also the idiosyncratic requirements of foreign customers, which could all cut into any prospective profits. These factors have led to a negative perception of the international marketplace, and subsequently influenced its exporting pattern.

Because of the location and role of WL in the supply-chain structure, its actions are directed towards providing initially a high-quality customised package (product and after sales support) as part of its differentiation strategy. This constrains WL's foreign market ventures because it cannot provide this service to its foreign customers.

Figure 10 outlines the roles these structures and the contingent environments have played to produce the low internationalisation level of WL. The cross-case analysis (Chapter 8) will examine these issues in relation to the results from the second case study discussed in the next chapter.

## **6.12 Summation**

From the above analysis, it can be seen there are several underlying issues affecting WL's current exporting pattern and any future internationalisation plans. These issues centre on the role played by industry, the level of technology, previous foreign experience by the decision-makers, perceptions of competition, and age. The effects of these issues on WL's operation in the international market are summarised below.

- Industrial factors that have influenced WL include the domestic orientation of the industry and the bulky nature of the product constraining the international orientation of the company.
- Technology levels within the company have enabled the company to attain the minimum competencies with which to be able to compete abroad.
- Previous foreign experience by ZD has greatly assisted in WL's internationalisation because of the positive perceptions she has of the international market. The lack of previous foreign experience by the two directors has, however, led to negative perceptions and has led the company towards its mostly domestic orientation because of the greater power the directors possess in the decision-making process.
- Perception of competition has a significant role to play in the case of WL, especially since its reorientation towards the high-quality sector of the market. Because WL believes it is secure in its market, it perceives competition as moderate regionally and nationally. This has led to a concentration on the domestic market because the international market is considered to be highly competitive and risky. These negative views by the directors are mainly due to negative perceptions of the international market because of lack of experience.

- Age also plays a significant role because WL has, over its 80-year history, developed systems and networks which have embedded it in the domestic market, so it would find it difficult to operate any other mode of internationalisation apart from indirect exporting.

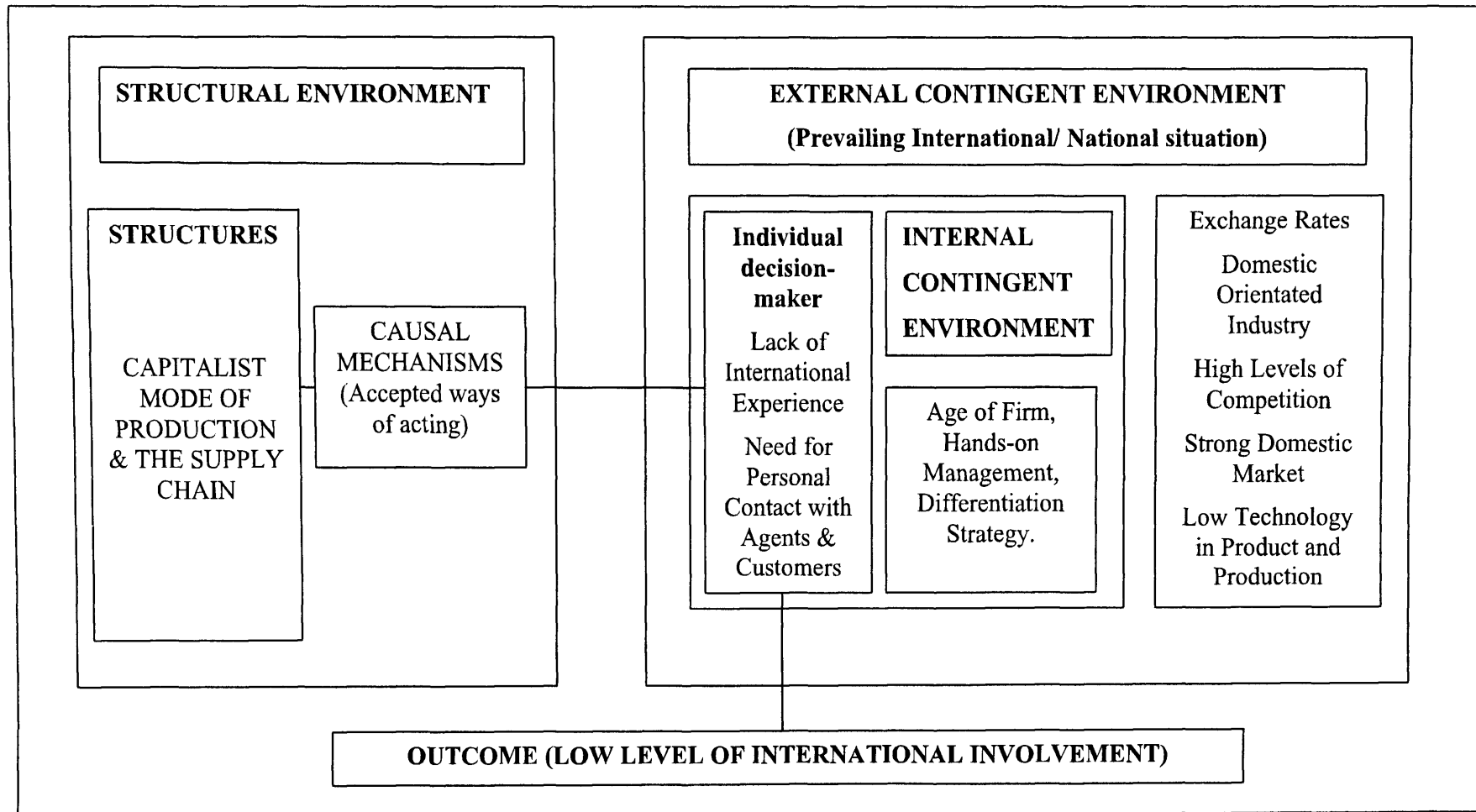
One of the main problems WL has is the lack of appropriate agents, which has meant that the agents that WL does have are not constant in their marketing of the WL product and hence orders are not regular. This has led to WL not planning explicitly for the international market and hence the lack of commitment is now on both sides. This is, however, with the exception of WL's German agent, where the agent shows high levels of commitment.

WL internationalises in an *ad hoc* manner because of the commitment it has made to providing a quality product and a quality service, where face-to-face contact with the customer is important. They have become domestically orientated because of the expense that would be incurred if this service was provided to their foreign clients. Because WL is orientated this way, it will not apply itself strategically to the international market, therefore it has internationalised in an *ad hoc* manner.

WL's position at present in the domestic market is strong because of its commitment to quality of product and service. Because of this, WL has not been encouraged to internationalise because it believes it cannot provide this quality to an acceptable standard. As reputation is important to WL, it feels that internationalising to a greater degree, while being unable to provide adequate service to its foreign customers, may actually harm its reputation.

The interplay between structures and the contingent environments are discussed in greater detail in the cross-case analysis that follows the case report for Company Two.

**Figure 10: The Structural and Contingent Effects on WL's Internationalisation Level**





**CHAPTER 7: COMPANY CASE STUDY REPORT TWO: CUESTIC LIMITED  
(CL)**

## **7.1 Introduction**

This chapter will review the main information gathered on the second case study company CL. Coupled with the previous case study the main information for the cross-case analysis of Chapter 8 is provided. The chapter is structured as follows. First, an overview of the case is provided, followed by information on the key personnel, a description of the structure of the firm, and an outline of how the case study was conducted. A description of the industry, the firm's place within the industry, and its export record follows this. The main influences on the firm's internationalisation is then analysed, followed by a brief description of the interplay between structures and the contingent environment that have led to the relatively high levels of internationalisation for CL.

## **7.2 Case Overview**

HC, who is currently working in America for CL USA, founded CL in 1983. The original premises were located in London until the company moved to Northamptonshire in 1989 because of tax incentives. The company is one of the major players in specific sectors of the global adhesive industry<sup>18</sup>, despite its size with turnover in the region of £12 million and approximately 120 employees. The company has two foreign subsidiaries, one in the USA, which is currently managed by the founder HC, and another subsidiary in Johannesburg, South Africa, which is used mainly as a distribution/break-of-bulk centre.

*“Current turnover in the States is 6 to 7 million sterling. The States is growing at about 30 to 35 % and we're growing at 12 to 15%. South Africa is mainly a distribution point. Our initial outlay, sales, were to companies who, private labelled, branded our products under their own trademark.” (PH Interview).*

Over the last two to three years the company has experienced growth in sales, profits, and exports, although profits fell in the previous financial year. Capital expenditure and product ranges have also increased, with a range of over 500 products at present. Despite these increases, CL has maintained the levels of its labour force and investment in R&D. The 120 employees are mainly manual (50%), 30% are considered skilled and 20% semi-skilled.

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<sup>18</sup> The industry produces both adhesives and sealants. The industry will be referred to here as the Adhesive industry for ease. An adhesive is defined as a substance that is “capable of holding materials together by molecular attraction instead of by mechanical fasteners” (Key Note, 1992: p.3)

The company has 3 directors. Although only one is proficient in a foreign language (German), the regional sales representatives are all proficient in the language relevant to their area. Other main issues are as follows:

- CL's main competitors are located across the UK, Europe and Asia, and competition is considered to be relatively high internationally in some sectors.
- CL operates a variety of hi-tech machinery, which have been specifically customised to suit its specific needs.
- CL's main suppliers are located in the UK and across Europe and Asia, supplying CL with both raw materials (chemicals) and components.
- CL's customer base is considered worldwide, although main exports are to the USA.

CL has exported since inception and now exports over 50% of production.

*"We've expanded the amount of our export business to our current level, which is somewhere around 55 to 60 percent export." (PH Interview)*

CL manufactures for three types of purchaser. It sells bulk adhesives to be repackaged elsewhere; provides own-brand and private labelled adhesives to industry; and supplies own-brand and private labelled (e.g. UHU) adhesives to the household market. As with the industry as a whole, CL has suffered no drastic recessionary effects thanks to its diversified industry and consumer markets.

CL's management structure is the same as that of many manufacturing companies, with its various departments reporting to the Managing Director. The departments include Sales and Marketing, Accounts, Purchasing and Manufacturing. The Technical department, the department in control of R&D, is currently being incorporated into the Marketing department, facilitating a better response to customer demands.

The company received ISO 9001 accreditation in 1992, which it believes to be:

*"... global recognition of the commitment to quality that the company is demonstrating while becoming a world leader in its field." (p.3 CL Company Brochure).*

Its mission statement also demonstrates the importance the company places on maintaining quality:

*“Our mission is to create an organisation that will provide product and technologies to meet or exceed the highest demands of our customers, to surpass expected levels of service and to be focused on the highest degree of corporate and individual excellence.”*

The following table summarises the main information on CL.

**Table 60: Key Company Information.**

<b>Company Name:</b>	<b>CL</b>
Industry:	Adhesives SIC: 24620
Location:	Northamptonshire, UK.
Export Markets:	Worldwide
Subsidiaries:	Atlanta, USA and Johannesburg, South Africa
Number of Employees:	122 (UK)
Product Description:	Adhesives
Main Markets:	45% National/ 55% Worldwide
Company Key Dates:	Founded 1983 in London First Major Export Contracts: 1987 Relocated to Present Site: 1988
Key Players:	Founder: HC Managing Director: PH Sales Director: CD International Sales Manager: IK
Turnover:	£12 million
Main Export Products:	Adhesives

Table 61 reviews the key dates in CL’s history, providing a picture of how the company has grown in the last 16 years. CL was formed in 1983, when production was based around the manufacture of anaerobic adhesives.

*“We started manufacturing anaerobic adhesives because they are easy to manufacture at low capital outlay.” (PH Interview).*

**Table 61: Key Dates in CL's History.**

1983	<b>Founded in London as a manufacturer of Anaerobics</b>
1985	Launch of "X" brand for Industrial Cyanoacrylates
1986	Marketing Strategy to grow with Own Label developed
1987	First Major Export Accounts in Germany, France and Western Europe. Revamp of "X" Industrial brand. Manufacture of Cyanoacrylates.
1988	Relocation to Northamptonshire (present location). CL formed in USA.
1989	Purpose-built factory and offices constructed in Northamptonshire. Launch of "Z" consumer brand.
1992	ISO 9001 achieved with full Design Accreditation. CL South Africa formed.
1993	Research into Medical Cyanoacrylate begins.
1994	Research into Photopolymer begins.
1996	"Y" Industrial brand launched. Revamp of "X" Consumer brand.
1997	New Launch of "21 <sup>st</sup> Century" Consumer brand. First significant accounts in Asia opened. Launch of photopolymer with brand "V".
1998	Marketing launch of Medical Cyanoacrylates.

The range of products manufactured by CL is extensive and complex. These products are:

- Cyanoacrylates
- Anaerobics
- Structural Adhesives/Epoxyes
- Primers/Activators
- UV Adhesives
- Conductives
- Dispensing Equipment
- Impregnation Sealants

- Photopolymers

Although this list may seem complex and its vocabulary alien to persons outside the industry, it highlights CL's role in the industry, showing the range of sub-sectors CL operates within. A description of these products and trends in the industry follows.

### **7.3 Key Personnel**

The key players at the company's UK branch consists of the managing director, PH, CD, the Sales Director, who is in charge of European Exports, and IK, the International Sales Manager, who is in charge of exports to the rest of the world. There are, however, several other personnel who foster and encourage CL's internationalisation, especially on the sales and marketing side of the company whose character has led to the current shape of CL. There is also some influence from the founder and chairman, HC, but this is limited because of his location in the USA, running the American subsidiary.

#### **7.3.1 PH, Managing Director**

PH, the current MD, is an autonomous manager, with little knowledge of the chemistry of adhesives, but intimate knowledge of the industry itself. PH's background is in Mathematics. After completing his degree, he joined the company for three years when it was based in London. He subsequently left the company and worked in finance in the City. He returned to CL five years ago as Sales Director. When the subsidiary in the USA was fully established, HC left the UK to oversee operations there, and PH became Managing Director in the UK.

PH has strong views on several aspects of the business and the economy in general. These have all had an influence on the operation of the company and its international orientation.

PH believes that the success of CL, and business in general, is to supply a quality product, as least as good as your leading competitor, and supplying it at a competitive price. PH's goals and ambitions are clear to make the company bigger and more profitable. Accompanying these general beliefs is a fundamental ideology that centres on "the team", a group of workers that have clear and distinct roles and responsibilities, but who work together towards similar goals. This is expressed by the following quote:

*PH: "We get rid of staff who don't toe the line and enjoy the team atmosphere, and everyone else enjoys their job and making money. It's the culture of the place, its fundamental to success."*

Another quote that expresses the whole ethos of the company and again shows the desire for and drive towards profits is the following:

*PH: "... profitability is our main concern. But we wish to grow to be a strong, wealth-generating, successful company throughout the years and we wish to have fun doing it."*

This quote encapsulates everything that CL is about, the reason for the success of the company.

PH also has strong views on the general economy, and believes the biggest hindrance to the company's exporting to Europe is the strength of the pound on the international market. Despite this, operating on the international market is not considered a major problem. The problem with trading with Europe is the strong pound, and the only problems with the rest of the world, where CL trades in US dollars, are the levels of documentation and certification required, and the threat that local devaluation has on market share in South East Asia.

In terms of the structure of the company, PH believes that, firstly, a clear division of responsibility is needed to ensure operation is smooth and any problems can be solved easily by identifying who is responsible at each stage of production. The company is currently restructuring the R&D department to work within the Sales and Marketing division so that demands from customers and industrial trends can be more readily responded to. This is to allow for the company to remain innovative and at the leading edge of the market, so as to retain surplus capital. This is, however, an action also caused by the supply-chain as structure as PH believes there is a need to be innovative in this industry to survive and meet demand levels, far less just retain profits.

PH would like to see the pound weaken. He would not, however, like to join the Euro to avoid the exchange risk, as he believes the Euro is overvalued. He also believes the UK economy is relatively strong and is very confident that the company will grow further because the company's business is widespread:

*"... all encompassing, any type of company is a potential customer for us, it just depends on the size of volume they would use."* (PH Interview).

In general, PH operates an open-door policy in the company with sales, marketing and research staff having more or less constant access. Although the management role is autonomous, PH actively interacts with all staff, from the factory floor to his fellow directors and managers. PH actively encourages a community within the workplace where

the boundaries between work and social activities can sometimes be blurred. There is also a level of reciprocity expected by PH, and respect is expected to run both ways in any relationship. This is a trait of PH that assisted the current research to a large degree, where participation in company activities by the researcher encouraged PH to assist to the level that he has.

PH sees the company growing in size and profits. The immediate plan is to do this via organic growth initially and, when resources allow, via inorganic growth.

### ***7.3.2 CD, Sales Director & IK, International Sales***

CD is the Sales Director for CL, and is also responsible for European Sales. IK, the International Sales Manager, is responsible for exports to the rest of the world. CD and IK work closely with the MD and are both experienced salesmen. Both CD and IK are educated to degree level in business and have been with the company since the early 1990s.

### ***7.3.3 Other Key Personnel***

There are several important players in the exporting side of the business for CL, especially because the exporting side of the business generates such a large percentage of sales. The sales and marketing team are mostly educated to degree level with several following specialist degrees in business and foreign languages. Much of the contact with personnel at CL was informal and information gathered was within a social setting. This was because the MD preferred this mode of research as he did not want staff disturbed during working hours. Despite this, a greater understanding of the company's operations was facilitated than in the previous case study where meetings were more formal and structured.

## **7.4 Divisional Structure and Management Style**

CL is made up of four departments including Sales & Marketing, Accounts, Purchasing and Manufacturing. R&D, the Technical Department, is now being incorporated within Sales and Marketing in order to be more efficient in meeting customer demands and follow industry trends. Marketing will act as an interface between the two, passing information on what the sales department needs, and what the technical department has invented.

The company has now appointed a plant manager, whose role encompasses those of the former chemical manufacturing manager and former production manager. The plant



manager now oversees the manufacturing of the chemicals, the filling of the order and the warehousing. This new role was deemed necessary because of the overlapping of the previous jobs and confusion over the allocation of responsibilities.

The Sales and Marketing Division is organised by region/area with specific persons responsible for each area. There is an international (rest of the world) sales manager (IK) and a manager responsible for Europe (CD). There are also individuals responsible for specific European countries, persons with the appropriate language skills. However, once an order is placed, be it domestic or European, or SE Asia, the rest of the functions involved, namely accounting and production, are all the same with all activities carried out on the same site.

The recent changes in the structure are not directly for maximising profits but are for maximising the efficiency of line-management controls. This is to ensure that allocation of responsibility is clear, where each manager knows what his or her responsibilities are and to ensure that time is not wasted in trying to allocate responsibility when things go wrong. PH explains these changes are designed to avoid the following:

*“If you have a separate manufacturing manager who makes the chemicals, and a separate manager who fills the chemicals, you tend to get a discordant line between the two, a lot of complaints are whose fault it was that something was done, and where the demarcation of the chemical having moved out of one building into another one, where the responsibility starts. It’s far simpler to have an overall manager who just accepts its his responsibility to get the thing made and out the door.” (PH)*

As with the previous case study, CL also operates in a very open manner, where the MD’s door is always open and there is constant interaction between the sales, marketing and production personnel. A vibrant team atmosphere has been fostered by the MD, and interaction outside of work is encouraged as he believes it builds relationships and encourages dedication and loyalty to the company.

*Q. “That’s something that strikes me, everyone seems to get on very well.” (Interviewer)*

*A. “That’s very important. We get rid of the staff who don’t toe the line and don’t enjoy the team atmosphere, and everyone else enjoys doing their job and making money. It’s the culture of the place, it’s fundamental to success. The future of the company is very simply to grow further, to become more profitable and larger, and probably to do it this year by organic growth and then subsequently to do it through inorganic growth.” (Interviewee)*

To foster this team atmosphere the MD sponsors several activities outside of the office. The company has cricket and football teams that are fully financed by the company to encourage participation by all levels of employees, from production workers to sales and marketing representatives. The company also has several social gatherings during the year such as nights out and company picnics. The MD also believes his presence is important at these events.

### **7.5 Case Study Method**

The methods employed in the CL case study were somewhat different from those used in the previous case study because of the antecedent relationships with personnel in the company and the social environment fostered by the MD. Because of these conditions, investigation was also informal at times. This approach fostered a greater understanding of the character of key personnel within the company and frequent meetings made the researcher aware of the vigour with which CL attacked the international marketplace, with several key personnel being absent for regular periods abroad. As with the previous case study, the process initially ran as shown in Table 62.

**Table 62: Procedures Employed in CL Case Study**

Step	Procedure	Details
1	Contacted MD via letter to request meeting.	Initial letter to confirm response to original request and a brief introduction to the purpose and form of the case study method and the project.
2	Informal Meeting Arranged.	Planning meeting arranged to sort details and request documentation available for inspection off-site and reference original questionnaire.
3	Planning Meeting: Site Visit 1	Arrangement of site visit(s); Access to documentation; Establish scope for access to personnel for Interviews; Establish scope for direct and participant observation; Establish level of follow-up needed and firms' requirements for feed-back; Obtain Background Documentation.
4	Site Visit 2	Tour of site including factory, laboratories and offices.
5	Off-Site Visits	Several informal meetings with MD, directors, sales and production staff gathering background information on the company, production processes, competitors and international operations.
6	Site Visit 3	In-depth Interview with MD.
7	Follow-up	Used for any off-site follow-up needed.

Much of the information gathered through Step 5, off-site informal meetings, proved the most useful in determining the overall character of the company. Because other key personnel, apart from the MD, have an influence on the operation of the company. This is unlike the previous case where the MD there had moulded the company to fit his own beliefs, and determining his character gave insights into the company's character. Overall CL can be viewed as a young, proactive, profit maximising company, which does not view any constraints as intractable.

## 7.6 Industry Overview

The Adhesive industry typically supplies many industries, as well as the individual consumer directly; it produces a wide variety of products, and is constantly innovating. Overall, adhesives are in widespread use. The industries that use adhesives include packaging, construction, engineering, manufacturing, and transportation. Other users include the footwear industry, bookbinding, furniture and woodwork. Domestic demand

accounts for approximately 30% of the adhesive industry output (Key Note, 1992). Of the main uses for adhesives (see list above), industrial use accounts for 70% of the market and domestic use for 30%. The packaging industry is the most important industrial user, accounting for 50% of sales, mainly for gluing and sealing boxes and labels. Food and beverage packaging takes up the bulk of this market, and because it was not severely affected by the recession, the packaging industry and therefore the adhesive industry avoided the bulk of the recessionary problems.

The construction industry is the next biggest user of adhesives for the manufacture of particleboard, plywood sheeting, chipboard, pre-fabricated timber, and other laminated woods. As the construction industry was affected severely by the recent recession, the adhesive industry did feel some of its effects.

As with the construction industry, the manufacturing and transportation industries were also affected by the recession, as was the aerospace industry, with severe downturns in military expenditure and the civilian aircraft market. In these industries adhesives are used to replace mechanical fastenings such as nuts and bolts, rivets and welding.

The main supplier to the adhesive market is the chemical industry, although the distinction between the two is blurred. Many chemical and petrochemical companies are also very involved in the manufacture of adhesives and sealants, although companies such as ICI have sold many of their manufacturing businesses so as to concentrate solely on chemicals.

In 1990, the industry employed about 7,200 people in 186 VAT-registered businesses. However, because of take-overs, mergers and rationalisation, the labour force is thought to have been reduced. Forecasts, however, predict that interest in acquisitions and take-overs will reduce, with companies concentrating more on cost cutting and restructuring (Key Note, 1992).

The main growth market for the adhesive industry is the non-woven textiles sector for whose products there is a growing demand (consumer/medical pads and dressings) and the pressure-sensitive adhesive films and tapes market. There is also a huge market in terms of value and volume for self-adhesive labelling.

The industry is now experiencing change as solvent-based adhesives are being phased-out because of environmental concerns and water-based adhesives and 100% solids are replacing these. Environmental concerns have led to increasing pressures to reduce organic solvents in production; strict laws were introduced in 1992 for manufacturers with

input requirements over 5 tonnes per annum. This was difficult for manufacturers because solvent-based rubber adhesives were still more popular because of superior performance. With the switch to solids and water-based adhesives the industry has been restructured to cope. New equipment and process innovation are being introduced, and with this growth in R&D. Despite recessionary problems in the 1980s/90s, R&D expenditure has not suffered thanks to competitive pressures. Because of the speed of innovation in the market, companies have needed to innovate to survive.

R&D plays a key role in the industry because of the highly specialist applications for which adhesives are currently being used. This is a knock-on effect from the development of new materials in other industries, causing the adhesive industry to innovate to cope with “complex new substrates” (Key Note, 1992). These substrates include carbon fibres and other advanced materials. High technology industries depend heavily on the adhesive industry for bonding these advanced materials in a variety of operating conditions, including extremes of hot and cold, wet and dry. There are therefore many market niches for the adhesive industry to fill and opportunities abound to penetrate industries that have previously never used adhesives. This is a direction firms in the industry will have to take to facilitate growth, as their most important buyer, the packaging industry, is at saturation level and total demand is static. Other industries important to the adhesive industry still, however, possess scope for expansion, such as the automobile industry. The superiority of adhesives over mechanical fasteners may enable capture of a wider market and uses have already spread widely in the construction industry, and into military and space applications.

The list of CL’s products above demonstrates the complexity of the industry. Adhesives are complex due to their variety of applications and substrates. To demonstrate this complexity, overviews of the products are discussed below.

There are two main types of adhesive, one with a natural base and one with a synthetic base. Natural-based adhesives include those based on starch/dextrin, rubber latex, and protein glues from animal bones. Synthetic adhesives are however more complex and have a greater variety of applications. They are also stronger than natural-based adhesives because of additives used to produce properties suitable to their specific applications. The number of synthetic adhesive products is growing, either by enhancing basic products or applying current products to new applications. The varieties of synthetic adhesives are listed below.

- Anaerobics: sets without contact with air and is used mainly as a seal in automobile and aircraft engineering.
- Cyanoacrylates: superglues used in electronics and DIY.
- Epodix: the most common structural adhesive used in industry.
- Acrylates: used in light assembly and as cement in optical components.
- Polyimides: used in extremes of heat and cold.
- Polyurethanes: as plastic film seals in packaging and in the automotive industry for direct glazing.
- Polyesters: used in glass-fibre assemblies and the grouting of concrete joints.
- Silicones: for rubber-based waterproofing and in adhesive tapes.
- Neoprene Elastomers: used as a contact adhesive.

The extent of uses for adhesives and the variety available, shown above, demonstrate the complexity of the industry being dealt with. Overall the manufacture of vinyl-based emulsions dominates the industry, mainly polyvinyl acetates which are used in the wood, paper and furniture industries.

Trends in production include the growth of epoxide-based resins as a structural adhesive, particularly in the aircraft industry to bond aluminium, in the automobile industry to replace light welding, in the electronics industry as protective resins, in the construction industry for ceramic tiling, and in woodworking as a laminate.

The number of water-based adhesives is also on the increase due to environmental factors. Although solvent based adhesives are better because they are quick drying and bonding strength is difficult to compromise, the gap between the two is decreasing due to extensive R&D.

This shift of product focus due to environmental concerns has benefited the industry. As an example, hot-melt/solid adhesives are not only effective in bonding many substrates while being environmentally friendly, they also produce little waste in production and have a range of uses in packaging and industrial fastening applications. The fastest growing sector in the adhesive market is in the mechanical application techniques for these hot-melts.

From the information above, it can be seen that the adhesive industry serves a very diverse market, mainly because of the range of complex substrates in use. Because of their complexity, the advent of new materials and stricter regulations all require a close relationship between R&D and marketing.

In terms of the size of businesses in the industry, there appears to be an even spread across size groupings based on turnover, as demonstrated in Table 63. Most of these businesses are, however, part of larger organisations.

**Table 63: Size of UK Businesses in the Adhesive Industry based on Turnover (1990)**

Turnover (£000)	Number of Businesses (VAT Registered- 1990)
23-50	32
51-100	27
101-250	33
251-500	20
501-1000	24
1001-5000	32
5000+	18
Total	186

Source: CSO-Size Analysis of UK Businesses, PA 1003.

CL's turnover falls into the £5 million plus category, showing the vitality of such a small, relatively young company.

In terms of external trade, exports and imports grew in both value and volume towards the end of the 1980s. It is expected that this trend will continue with deeper EU integration, increasing demand, and expectations of further innovation. Exports totalled over £66 million in 1990 (HM Customs and Excise). Rubber and synthetic-based resins were by far the most important export, amounting to £23.2 million in 1990 (*op cit.*). Table 64 shows a breakdown of exports of formulated adhesives between 1986 and 1990.

**Table 64: UK Exports of Formulated Adhesives (£million), 1986-1990.**

Type	1986	1987	1988	1989	1990	Growth (%)
Dextrin/Starch based glues	0.9	0.6	1.0	1.1	1.2	33
Casein Glues	0.2	0.2	0.5	0.6	0.9	350
Fish & Bone	2.4	3.5	2.8	2.4	4.0	67
Photographic Gelatin Glues	5.8	5.8	5.7	6.4	5.3	-9
Other Gelatin Glues	6.4	6.2	6.5	8.3	9.4	47
Natural Gum-Based Vegetable Glues	0.1	0.2	2.4	2.9	3.1	3000
Other Vegetable Glues	0.9	0.9	3.0	3.3	3.7	311
Rubber/ Synthetic Resin Glues	12.1	14.7	21.4	22.7	23.2	92
Other Glues	8.5	9.0	2.5	3.0	3.2	-62
Retail Glues:						
Cellulose Base	0.3	0.3	0.9	0.8	0.5	67
Other Glues	4.4	6.5	5.9	7.7	11.6	164
<b>TOTAL</b>	<b>42.0</b>	<b>47.9</b>	<b>52.6</b>	<b>59.2</b>	<b>66.1</b>	<b>57</b>

The profile for imports into the UK is much the same as for exports, with rubber and synthetic resins taking the largest shares in volume and value.

The future of the adhesive industry will depend on R&D as companies attempt to preserve their long term prospects as new markets open up and technical complexity increases. Synthetic adhesives will continue to be the focus of much R&D because of environmental concerns about solvent-based adhesives. One of the new markets expected to grow substantially is that of bio-adhesives for use in the medical and personal care sectors.



**Table 65: Top Participants in the UK Adhesive Market, 1996-1997**

Company Name	Sales (£000)	Business Description
1. Wassall Plc	354,900	Holding Company For A Group Involved In The Manufacture And Distribution Of Copper Wire And Cable, Adhesives And Sealants, Bottle Closures, The Provision Of Pre-Press And Packaging Services
2. Henkel Ltd	125,226	Adhesive And Chemical Manufacturers.
3. National Starch & Chemical Ltd	125,000	Adhesive, Polymer And Synthetic Resin Manufacturers.
4. Evode Ltd	54,875	D I Y Product And Industrial Adhesive And Sealant Manufacturers. Including Adhesives, Sealants, Bitumen Products And Wood Finishes
5. Borden Chemical U K Ltd	53,014	Industrial Resin And Adhesive Product Manufacturers
6. Avery Dennison U K Ltd	51,540	Self Adhesive Label Manufacturers (Including Display Tapes And Accessories).
7. Reichhold Investments Ltd	49,695	Holding Company For A Group Engaged As Industrial Adhesive Manufacturers.
8. Bro-Tech Ltd	41,289	Holding Company For A Subsidiary Engaged In The Manufacture Of Iron Exchange Resins.
9. Fuller, H B, Holdings Ltd	29,249	Holding Company, For A Group Engaged As Manufacturers Of Adhesives And Silicon Based Packaging.
10. Bostik Ltd	24,860	Adhesive Manufacturers.
11. Croda Polymers International Ltd	21,681	Adhesive Manufacturers And Distributors.
12. Norcros Adhesives Ltd	21,452	Ceramic Tile & Industrial Adhesive Manufacturers.
13. Precis (1746) Ltd	19,964	Adhesives Manufacturers.
14. Ball, F, & Co Ltd	17,192	Floor Adhesive And Floor Preparation Product Manufacturers.
15. Beardow & Adams (Adhesives) Ltd	12,305	Hotmelt Adhesive Manufacturers.
<b>16. CL</b>	<b>12,000*</b>	<b>Adhesive Manufacturers</b>
17. Apollo Chemicals Ltd	11,602	Industrial Adhesive Coatings And Sealants Manufacturers
18. Swift Adhesives Ltd	11,235	Industrial Adhesive Manufacturers
19. Sellotape G B Ltd	10,972	Adhesive Tape Manufacturers And Distributors.

\*Approximate figure.

Source: Dunn & Bradstreet (1999)

Table 65 above shows the top 19 companies in the UK ranked by sales. CL's sales are in the region of £12 million, which would place them approximately 16<sup>th</sup> in the list. In terms of net worth, CL would be in the same approximate position.

*“We don’t find export particularly difficult in our market primarily because there are very few international competitors in terms of cyanoacrylate manufacture. There are only about 10 manufacturers- ourselves, Loctite and Henkel are the only significant ones in the Western world. The rest are all based in Japan or Taiwan.” (PH Interview)*

CL considers Henkel to be their main competitor (especially since Loctite became part of Henkel) because of the particular market segment that CL operates in. CL operates in a particular segment of the market where the products are characterised by high margins and high barriers to entry, especially since the chemicals used in manufacturing are either difficult to acquire or manufacture.

*“The marketing side of the products are characterised by high margins and high barriers to entry for these type of chemicals.” (PH Interview).*

CL mainly competes with Henkel in one product market, cyanoacrylates. CL is able to compete in this market because of the competencies it possesses and because there are few other competitors. In other markets, CL is subject to more competition.

*“Anaerobics, there are many [manufacturers], other manufacturers are very small, dotted around the world, there are few significant ones, and UVs are very specialist.” (PH Interview).*

The appointment of an ex-Loctite scientist has given CL an advantage in the manufacture of cyanoacrylates.

*“The scientist originally came out of Loctite, some 15 years ago, and Loctite’s business is based around those three products [cyanoacrylates, anaerobics, and UVs].*

*The success of the business is based on supplying the highest quality product, a quality of product at least as good as Loctite/Henkel’s, and supplying it at a price that is very competitive. That’s the easy winning formula. When the companies we are competing against are trading on margins of 85% there is a fair amount of room to undercut them.”(PH Interview).*

From Table 66 it can be seen that CL is currently under-performing in terms of pre-tax profits, although sales and net worth can be said to be on par with its larger competitors. This low level of profits is the reason behind the firm’s restructuring. However, the structure of the company was not the reason for the slump in profits. The slump in profits was mainly due to the loss of markets in South East Asia, from which the company has now recovered.

**Table 66: Summary of CL's Main Peers 1996-1997**

	Town	Sales (£000)	PT Profit (£000)	Net Worth (£000)	Number of Employees
National Chemical Ltd	Starch & Manchester	125,000	4,730	3,913	397
Evode Ltd	Stafford	54,875	3,981	3,323	429
Fuller, H B, Holdings Ltd	Alfreton	29,249	1,701	3,720	161
Croda International Ltd	Polymers Goole	21,681	4,579	5,195	194
Norcros Adhesives Ltd	Stoke-On-Trent	21,452	1,877	2,740	187
Beardow & (Adhesives) Ltd	Adams Milton Keynes	12,305	321	1,399	67
<b>CL Ltd</b>	<b>Northants.</b>	<b>12,000*</b>	<b>(181)</b>	<b>3,131</b>	<b>97</b>
Apollo Chemicals Ltd	Tamworth	11,602	589	2,334	85
Designstart Ltd	Wrexham	6,397	74	2,503	86
Pafra Ltd	Basildon	4,509	307	3,324	49
Agmet Ltd	Reading	n/a	408	2,604	22

\*Approximate figure.

Source: Dunn & Bradstreet (1999)

## 7.7 Exporting Record

*“Our first customers were based in Switzerland and Germany and the UK. There was no difference in selling to those customers as to selling to the UK customer. The only difference was slightly longer on a plane and the exchange risk.” (PH Interview)*

CL began exporting small amounts at start-up in 1983, with large accounts opened in 1987 mainly in Germany and France. Exporting was proactive, prompted by the size of the global market.

Table 67 shows the countries that CL exports to and the proportion exported. Of the 40 markets in Table 67, thirty-one are new markets, that is, markets where CL did not have sales or a distributor prior to 1996. There has therefore been a push to enter new markets.

**Table 67: CL's export markets and shares (1998).**

Rank	Country	Sales %	Sales (est. £000)	Notes
1	USA	23	1000	
2	FRANCE	14	613	
3	GERMANY	13	575	
4	NETHERLANDS	11.5	490	
5	SPAIN	9.5	408	
6	MALAYSIA		283	
7	INDIA		239	
8	SOUTH AFRICA		110	
9	SWEDEN		98	
10	TURKEY		83	
11	TAIWAN		74	Access to China
12	SWITZERLAND		73	
13	KOREA		52	
14	IRAN		36	
15	PHILIPPINES		33	
16	DENMARK		29	
17	POLAND		27	
18	JAPAN		21	
19	PAKISTAN		16	
20	AUSTRIA		15	
21	VENEZUELA		14	
22	ITALY		14	
23	PORTUGAL		13	
24	ISRAEL		12	
25	THAILAND		11	
26	BANGLADESH		9	
27	SINGAPORE		9	
28	ARGENTINA		9	
29	EGYPT		8	
30	DUBAI		5	
31	GREECE		4	
32	JORDAN		2	
33	HONG KONG		2	Increase Expected
34	URUGUAY			New, no sales
35	COLOMBIA			New, no sales
36	CHILE			New, no sales
37	AUSTRALIA			Negotiations
38	SAUDI ARABIA			Negotiations
39	INDONESIA			Economic/ Political Problems wiped out sales. £10,000 in 1997.
40	BRAZIL			Negotiations

CL has suffered currency difficulties in Europe and economic difficulties in their main receiving markets in South East Asia.

*“The biggest problem with Europe is the strong pound, which any other exporter will tell you. The Euro is 10% cheaper on launch and that’s 10% off our profit margin cause we cannot adjust our prices for currency weakness. We have to sit there and take our margin.”*

*“Internationally we lost our South East Asian business, which was quite strong until a year and a half ago when Malaysia and Indonesia crashed. We still haven’t got any business back in Malaysia, but our business in Indonesia, Thailand and Taiwan is coming back even stronger pre- the [sic] crisis. Currency is not a problem in those countries cause we deal solely in dollars, the only problem with currency is that local producers, Chinese producers, who benefited from a lower cost base because of devaluation of their own currencies. So Chinese producers became cheaper exporters locally within that region. Which compounded problems generally we have to make savings built into this building in terms of automation, not to mean labour rates are significant in making yourself competitive. So international exporting is far more difficult than European in terms of local devaluation for their natural competitiveness on labour and because of the difficulties of exporting, the difficulties of documentation and shipment, you have to have certified goods. We’ve had lots of difficulties with those... payment...cumbersome and costly, so yes, international business is more problematic.” (PH Interview)*

CL does not consider the exporting function of the company to be an autonomous section of its business either, but it is indeed built into the general operation and ethos of the company.

*“There is an administrator for international and an administrator for Europe. But the rest of the process, the accounts function, the manufacturing and the delivery up to the warehouse are all under one roof when they have an order.” (PH Interview).*

Because of this organisational factor, where there are basically separate sales representatives for the UK, Europe and worldwide, and where all other functions are handled the same way, exporting is perceived as just another sales opportunity.

## 7.8 Main Influences on CL's Internationalisation

This section will draw on the information above and other available data to establish CL's place in the market and the main elements of their exporting process related to theory. This will include factors that facilitated the entry into the export market, triggers of the exporting process, barriers and difficulties found in the exporting process, factors behind market choice and modal choice, and factors determining future expansion or contraction of foreign markets.

A brief list of the important related factors is shown in Table 68. These factors will be related to the main issues identified earlier and used in the previous case study.

**Table 68: Factors Important in the Internationalisation of CL.**

	Facilitators	Stimuli	Barriers	Market Selection	Modal Choice
Internal Factors	Innovative; International Orientation; Tradable Goods; Good Organisational Learning; Possession of Minimum Competencies.	Profit Perceptions.		Previous contacts.	Previous Experience; Managerial Expertise.
External Factors	Networks; Secure Domestic Market; International Orientation of the Industry.	Availability of Market.	Documentation; Exchange rates.	Industry Trends; Lead Markets; Market Size;	Industrial Character; Lead Markets.

### **7.8.1 Facilitating Factors**

**Industry:** The adhesive industry has facilitated CL's internationalisation in several ways. First, the international orientation of the industry is based on the tradability of the product, where adhesives have many applications in several different industries and in the household. This has given CL a wide scope to exploit, as shown from an interview with PH:

*"There has been a general shrinkage[domestic market volume], however our business is wide, all encompassing, any type of company is a potential customer for us, it just depends upon the size of the volume they would use as to whether it would be worthwhile approaching them, and of course we would consider that we would sell throughout Europe, throughout the world."*

This, coupled with the availability of internationally experienced industrial personnel because of the nature of the industry, has given CL an international orientation from the start.

**Previous International Experience:** The employment of an internationally experienced adhesive scientist meant the company had contacts abroad from inception. Apart from the experience of the scientist, the other directors had international experience from previous employment, which led to the perception that international activity only meant *"a little longer on a plane"*. This positive perception of the international market has greatly facilitated CL's internationalisation.

**Perception of Competition Levels:** CL does not view the national or regional markets as extremely competitive, but the international market for some of its products is highly competitive. The company believes it has a secure domestic market but the decline in sales to manufacturing in the UK has meant that CL needs to exploit the international market to a greater degree. It has done this by operating in sectors of the international market which are not very competitive, and quite concentrated. Perception of competition levels as low regionally and nationally has therefore enabled CL to dedicate resources to international marketing because CL does not feel threatened in its domestic operations.

**Age:** The company's age acts as a great facilitator of the internationalisation process. Because the company was formed in an era of globalisation when there was greater understanding of the international market, the company has had an international orientation

from inception and has not developed procedures which would embed it in the domestic market, as has WL.

**Technology:** The level of technology the company utilises has facilitated its international operations because it has allowed the company to attain the minimum competencies required to operate internationally. The actual technological orientation of the company has facilitated internationalisation because the nature of the product means CL needs to exploit the international market as the domestic market is not large enough for its products. CL is therefore in a fashion being pushed abroad.

CL's exporting activities have therefore been facilitated by three main factors: the nature of the key players, the nature of the product, and the industry within which it is involved. This process has been far from deterministic, as predicted by the stage growth models criticised in Chapter 2. Other important factors include the innovative nature of the company in its attempt to cater to the demands of its customers, and the good organisational learning of the company, which is based on the previous experience of the key players. The competencies that it possesses are especially related to the appointment of the original Loctite scientist. The networks that the company has gained from the appointment of the scientist and the good domestic market that it possesses have both acted as facilitators of the whole internationalisation process.

As the company exported small amounts from inception, CL did not have the chance to become locked in to the domestic market and it has employed procedures that can easily cope with the export market. Therefore the company's short time lag between its inception and first exports has prevented negative perceptions of the international marketplace from forming.



### **7.8.2 Triggers**

**Industry:** The perceptions of a larger market abroad and of a limited domestic market were the main trigger to CL's internationalisation.

**Previous Foreign Experience:** Another trigger was the employment of the former Loctite scientist, where the contacts the scientist had formed facilitated the original exports of CL. Without these contacts, CL's launch into the international marketplace may have remained just a future strategic direction. If this had occurred, then CL may have become embedded in the domestic market and had the same negative perceptions of the international market that WL has.

**Perception of Competition Levels:** The realisation that there existed niche markets with low levels of competition acted as another spur to CL to become involved in the international market.

**Level of Technology:** Technology acted as a trigger to CL's internationalisation because the company realised they would have to exploit foreign markets because the domestic market was not large enough to give sufficient returns on their investment in technology.

The triggering of CL's internationalisation is due to the perception that the international market could provide the company with greater profits than the domestic market could provide because of the market niches the company was operating in.

### **7.8.3 Barriers**

**Industry:** The adhesive industry presents CL with few barriers to its internationalisation program. The only significant barrier is in the bulk end of the market when the company competes in South East Asia against producers with lower production costs.

**Perception of Competition Levels:** CL perceives competition levels to be high internationally in some sectors of the market and this has led to the company dedicating resources to less competitive sectors of the market.

The main barriers to CL's internationalisation are the documentation required in some markets, and the problem of currency devaluation by other countries, as noted above. The strength of the pound also affects exports to Europe:

*"We distinctly sell to UK manufacturing which has been in decline for some number of years now. Our sales to the UK have declined in line with that. Our biggest concern is the strong pound. We would like to see the pound weaken."*(PH)

He desires to see the pound weaken so that the company can exploit the international market to a greater degree.

#### **7.8.4 Market Selection and Modal Choice**

**Industry:** The widespread use of adhesives in industry and the household means the potential market for CL is worldwide the only factor of importance in market selection is that of receiving orders in sufficient volume to make the venture profitable.

Because packaging and transport is easy, the company's *modal choices* are dependent only on the size of the market they are serving. For example, CL directly invested in the US market because the size of the orders it was receiving from the US made this investment feasible. Its South African business was set up as a break of bulk point because the company was then able to serve its African and South East Asian markets more profitably. The company ships in bulk from the UK to South Africa where the products are then repackaged for reshipment to other markets. This has cut down on labour costs in the UK and reduced shipment costs.

**Previous Foreign Experience:** The previous experience of the US market by the founder, HC, has had a direct influence on the company's dedication to the US market, where sales to the US amount to 23% of CL's international business. There has been a greater attempt by the company to exploit this market because of its size, and because of this the company has had much more sales in the US than anywhere else, which led to the subsequent direct investment in the US. Previous international experience has therefore had an effect on both market and modal choice.

**Perception of Competition Levels:** Because the company perceives competition domestically to be moderate, and has a secure domestic market, it does not feel constrained in the amount of resources it can direct to international marketing. CL therefore believes its potential market is worldwide, and its scope for modal choice is only dictated by the volume of the orders received.

**Age:** The age of the company affects market and modal choice because the company has been structured from inception to cope with various internationalisation options, because the company knew it would have to compete internationally to survive.

The volume of the orders it receives from abroad is therefore the main influence on CL's market and modal choices.

### **7.8.5 Future Plans**

**Industry:** The great deal of research and development in the industry has spawned many new products for specific applications. Because these products serve a niche market, one market will not provide sufficient volume to justify the research costs. Therefore companies in the industry must look further afield for potential markets.

**Previous Foreign Experience:** Because the company has foreign bases in the US and South Africa, and there is constant travel between the two, as the company grows these centres will also grow. As knowledge of these markets grow the company plans to expand in these markets. Therefore, market knowledge and the learning curve as described by the stage models described in Chapter 2 will have an influence in this case, but not necessarily in others, as seen in the previous case where the company's experience leads to their allocating less resources to internationalisation.

**Perception of Competition Levels:** CL perceives competition levels as high internationally and because of this believes that it has to be innovative to survive and find market niches within which to operate. In order to do this the company will continue intensive R&D. To justify these costs the company believes it will need to continue its internationalisation programme to exploit the markets available worldwide, because the domestic market will not provide sufficient volume, since the decline in UK manufacturing as noted above by PH.

**Level of Technology:** This relates to both the complex nature of the product and the technology involved in production. As above, the company believes it needs to continue with its internationalisation to justify the costs of technology in production due to the insufficient size of the domestic market.

## **7.9 Structures and the Contingent Environments**

There are several factors influencing CL's internationalisation, operating on several different levels. First, the influence of the external contingent environment is discussed.

### ***7.9.1 The External Contingent Environment***

The main contingent factors operating external to the company centre around industry and the domestic and international economy. The decline in UK manufacturing has led the company to implement a strategy directed abroad in order to exploit the size of the international market. This and the international orientation of the adhesive industry, have led the company in this direction, influenced primarily by the structures of importance for the company, the capitalist mode of production and the supply-chain which are discussed below.

In terms of the domestic and international economy, the contingent factors of importance include the Government granting tax concessions in its current location, the exchange rate, devaluation of other currencies, and market crashes. When the company moved to its present location, it received a tax concession from the Government because of the high levels of unemployment in the area. Because of the savings the company made on this, it was able to direct more resources abroad. Currently, however, because of these Government incentives, the area the company is based in has achieved nearly full employment, making it difficult to find staff in the area. The other side of this is that the company must also now pay better wages in order to retain staff. This has made attaining greater profits necessary in order to survive and has fostered a proactive approach to international marketing. It has also influenced the management style of the company, where the directors attempt to instil a team attitude in workers and hopefully achieve high levels of loyalty.

Local devaluation in SE Asian markets, and market crashes in Malaysia and Indonesia have both forced CL to seek out other markets, as shown by the amount of new markets in South America and the Middle East, shown in Table 67.

### ***7.9.2 The Internal Contingent Environment***

The internal circumstances that have directly influenced CL's internationalisation are linked to the experience, competence and perceptions of personnel, and the sectors of the market the company has targeted. In terms of experience, the company has several

internationally orientated personnel, whose perception of the international market is positive. This positive perception is grounded in the fact that the personnel view international operations as requiring “*just slightly longer on a plane*”. It is also because of the age of the company, where from inception, the company has had to operate in an internationally orientated industry. Knowing this orientation, the company has established systems and structures with which to cope with international activities.

Because of the specialist nature of certain sectors the company realised there would not be a sufficient market domestically to justify the cost of R&D and manufacturing and therefore it began marketing abroad as well. Therefore the nature of the product, a specialised high technology adhesive, is another contingent factor which with other contingencies and structure have influenced the path CL has taken.

Therefore the main issues investigated earlier, industry, age, international experience, perception of competition levels and technology, have all had an effect on the internationalisation of CL.

CL employs a focussed strategy (Porter, 1985; Reid, 1993), defined by Reid (1993) as:

*“...a judicious mix of differentiation and cost control at the level of a single market segment or, more usually, several highly interrelated market segments” (p.119)*

Because the firm has employed this approach it is in a manner forced to internationalise to justify the costs of R&D that have been incurred in differentiating its product.

### **7.9.3 Structure Influencing CL's Internationalisation**

The desire to retain surplus capital, which is the effect of the capitalist mode of production, is the main structural cause of CL's internationalisation and is paramount to the orientation of the company. PH expressed this as follows, “*I suppose everything that one does is to try and make the company bigger and more profitable.*”

In addition to looking to foreign markets the company has also sought sectors in the market with few competitors, i.e. cyanoacrylate manufacture. Therefore the capitalist mode of production is one of the main factors in CL's internationalisation because it is able to achieve the profits it wants at low levels of risk, because of the lack of competitors in some sectors of the market.

The supply chain here not only relates to the demands of customers, seen as important in the previous case study, but also incorporates the general industrial structure of the UK,

where the adhesive industry acts as both supplier and customer to several industries. Some of these industries are highly sensitive to the general state of the economy (especially construction and aviation). Because of the decline the company has seen in manufacturing domestically, the company has had to search further afield to sell its goods. In addition to this, it is responding to demand in some niche sectors of the market because CL is one of the few companies to produce certain goods. Because the company needs to sell a greater volume of cyanoacrylates to justify costs, they have had to search further afield for orders.

Because of structures and the contingent circumstances influencing the company's operations, the company has had to be proactive in widening its market sphere. Figure 11 below outlines how the contingent environments and underlying structures have led to the high internationalisation of CL. The next chapter discusses how these factors have led to different internationalisation levels in WL and CL.

### **7.10 Summation**

From the above information presented concerning CL and the adhesive industry, there are several important points to be gleaned. First, at the personnel level, the decision-makers and workforce are young, and proactive in seeking out new markets and products. Secondly, the firm is a profit-maximising company with little aversion to the international marketplace.

*"Growth is certainly our, was our raison d'être, now profitability is our main concern. But we wish to grow to be a strong, wealth-generating, successful company throughout the years and we wish to have fun doing it." (PH Interview).*

The company is also currently restructuring, and the importance of other factors shows the importance of investigating motives. As the company is profit and growth orientated, this could be the reason for its restructuring. However, the motivations here are more complex.

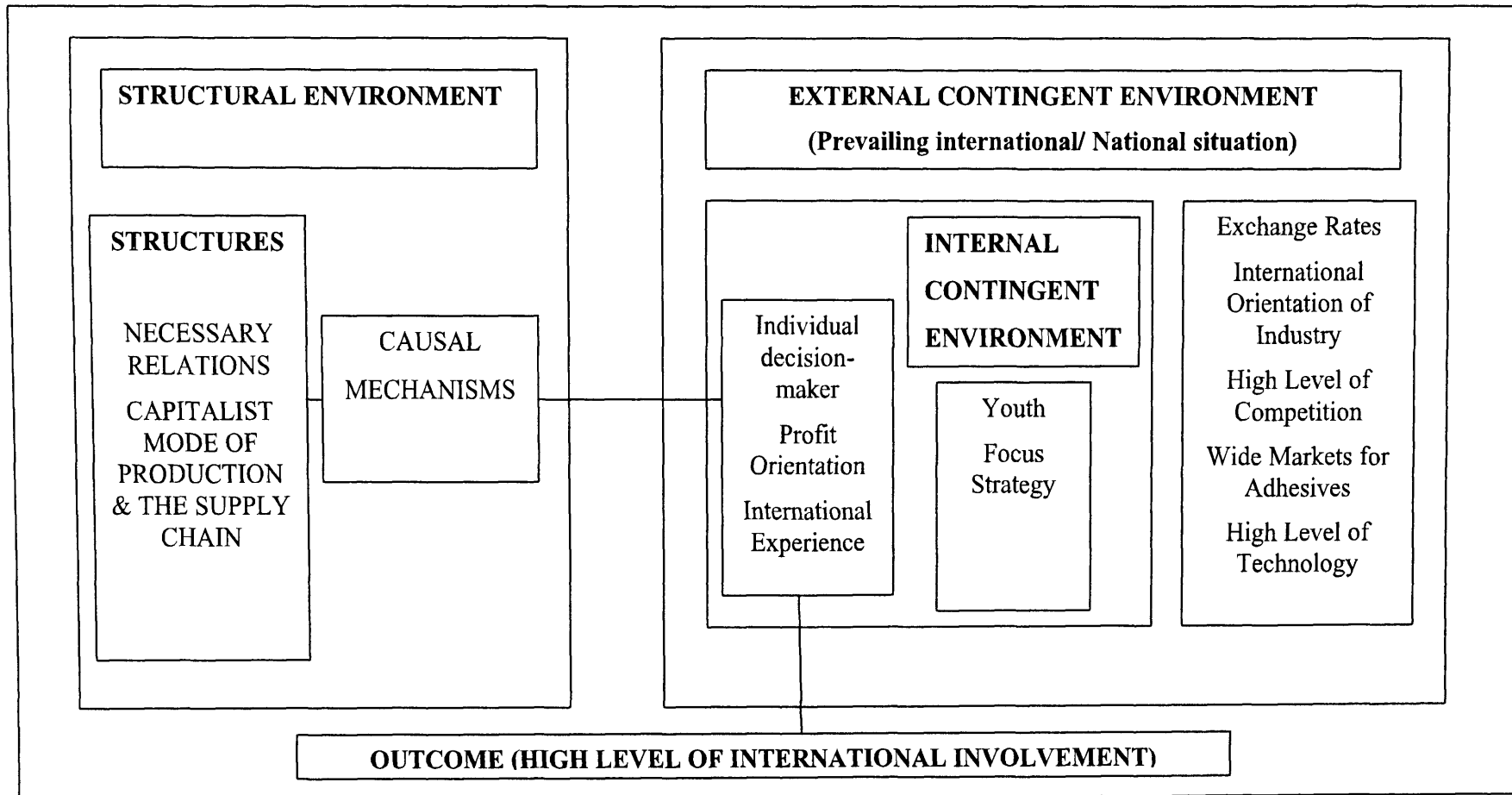
*"I suppose everything that one does is to try and make the company bigger and more profitable. I'm NOT sure that that is the direct motivation for that, it's to do with, more to do with, line management controls, probably more detailed concerns about management of a manufacturing business." (PH Interview)*

One factor that must be noted here is the influence of the industry within which CL operates. The international orientation of the industry as a whole is a factor influencing CL's internationalisation. It must, however, be remembered that there are also other

important influencing factors, such as the personal character of the decision-makers, the availability of an adequate market segment, the state of the domestic market, and the state of the international economy.

Understanding the factors of interest and the interplay between structure and the contingent environment in determining the results has led to a clearer picture of why these companies have internationalised in the manner they have, far from the deterministic stage approaches of the Uppsala School. How these and other factors have affected both of these companies will be discussed while utilising a conceptual framework that deals with the interplay between structures and the contingent environments.

**Figure 11: The Structural and Contingent Effects on CL's Internationalisation Level**





**CHAPTER 8: THE CROSS-CASE ANALYSIS**

### 8.1 Introduction

The areas of interest here are the underlying issues that have led to the differing export levels of the two case companies. From a critical realist perspective, these underlying issues are believed to operate at the level of structure, where the powers and liabilities are seen to influence action under certain contingent circumstances, both internal and external to each firm. The conceptual framework outlined in Figure 12 below shows the relationship between these issues where both the external and internal contingent environments interplay with underlying structures to produce different rates of internationalisation.

Several issues were identified as playing a role in the internationalisation of these two companies. These issues interplay with the underlying structures, the capitalist mode of production and the supply chain, to produce the differing internationalisation paths seen. The issues that played a role in the internationalisation process relate to the external and internal contingent environments. Table 69 outlines the main external and internal issues to be discussed.

**Table 69: Important Issues in the External and Internal Contingent Environment**

<b>External Contingent Environment</b>	<b>Internal Contingent Environment</b>
International orientation of the industry	Previous international experience of key personnel
Competitive levels both domestically and internationally	Age of the firm
Technology	Company strategy

The aim of this chapter is to examine how these issues, at the external and internal level, interact with the prevailing structures to produce the different internationalisation levels, that is the low export levels of Case Company 1 (WL) and the high levels of Case Company 2 (CL).

This chapter is structured as follows. First, the external contingent environment is examined in relation to the effect the national and international economic environment, industrial factors and technology have on the internationalisation of the case study firms.

Following this, the internal contingent environment is examined in relation to the nature of the firm, the characteristics of key personnel, and strategies employed. In summation, the interaction these environments have with the underlying structures are examined and discussed. In order to reveal the underlying causes of these two firms' differing internationalisation levels in line with a critical realist approach; it will show how the same underlying structures can have different effects on a firm's operations because of the contingent environment that each company operates in.

## **8.2 The External Contingent Environment**

As highlighted in Figure 12, there are five key issues within the external contingent environment that have been identified as affecting internationalisation. These issues- the external economic environment, industry, technology, competition and markets- are discussed as they relate to the role they have played in either facilitating or hindering these firms' internationalisation, and in determining modal and market choice.

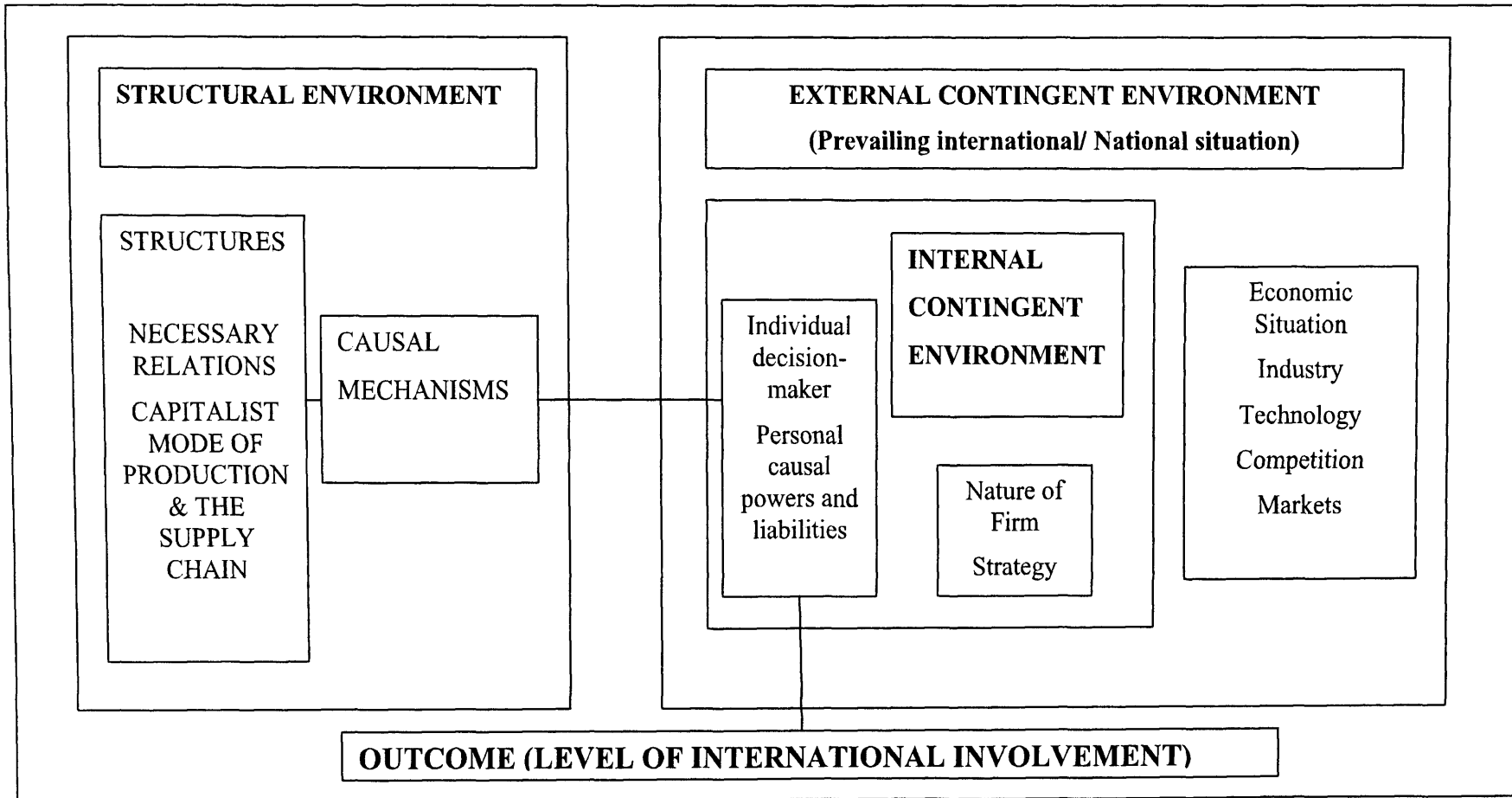
### **8.2.1 The External Economic Environment**

The external economic environment relates to such elements as exchange rates, economic issues in foreign markets, lead markets, and domestic economic conditions.

In terms of exchange rates, the current strength of sterling has affected both firms adversely when exporting to Europe. Because of significant lead times in production for WL (approximately 6 months), exchange rate variations pose a significant risk to its exporting activities and WL's agents are reluctant to press for greater sales because of losses that could be incurred. In the early 1990s, the company's Spanish agent was affected by exchange rate variations and domestic economic problems in Spain, leading to significant losses due to the difference in the value of the pound when the price was quoted and its value on delivery of the product. This experience and the economic recession in the 1980s and 1990s that severely affected the company's other foreign agents contributed to the negative perception that WL's directors have of the international market.

For CL, the strength of sterling acts only as a barrier in Europe, where orders are invoiced in pounds. In the rest of the world the company invoices in U.S. dollars, which lessens the impact of the pound's strength. This has, however, contributed to the company's preference for marketing farther abroad.

**Figure 12: Internationalisation Decision Framework: A Critical Realist Approach**



In foreign markets, CL was adversely affected by local devaluation in South East Asia, where the company had major contracts, and it lost business in that part of the world. However, because of the wide market the company serves, the effect was not as severe as it could have been and did not affect perceptions of the international market.

Large markets in South East Asia and the USA, and the potential access to new markets as China's economy opens up to the outside world, have also prompted an investment in a proactive search by CL for new customers.

Overall, external economic issues have adversely affected WL's international operations. CL, on the other hand, has accepted external economic problems and acted to nullify their impact by widening its market.

### ***8.2.2 Industrial & Technological Issues***

Industrial and technological issues mainly relate to differences in the size of firms in each industry, and the differing levels of capital intensiveness (technology). The main financial variables for each industry are analysed below. These figures were extracted from a sample of 321 timber manufacturing firms and 51 adhesive firms (Dunn & Bradstreet, 1999).

The two case study companies operate in separate and distinct industries. WL operates in SIC 20300: The Manufacture of Builder's Carpentry and Joinery. CL operates in SIC 24620: The Manufacture of Glues and Gelatine. A comparison of these two industrial sectors' mean-size firms reveals several differences (see Table 70). The differences are especially seen where the mean size adhesive firm is larger especially in sales, pre-tax profits, assets, and employees.

**Table 70: Main Industrial Variables for Timber & Glues**

<b>Financials</b>	<b>SIC 20300 Timber</b>	<b>SIC 20300 Means</b>	<b>SIC 24620 Glues</b>	<b>SIC 24620 Means</b>
Sales (£000)	2,333,397	7,269	1,376,073	26,982
Pre-tax Profits (£000)	113,434	353	66,515	1,304
Total Assets (£000)	1,555,892	4,847	1,738,039	34,079
Net Worth (£000)	305	0.95	(612)	(12)
Number of Employees	29,104	91	10,415	204
Sales/ Employee (£000)	122	-	820	-
Number of Companies in Sample	321	-	51	-

Source: Dunn & Bradstreet (1999)

At the industry level, adhesive firms are more capital intensive, making their sales per employee variable higher than that of timber manufacturing. The timber manufacturing industry is more labour intensive.

The mean size adhesive firm is twice as large as its timber manufacturing counterpart in terms of number of employees, with three times as much sales, and assets seven times that of a timber-manufacturing firm. These significant differences suggest that size may indeed be an issue leading to the relatively greater internationalisation of the adhesive industry.

The fact that domestic demand accounts for only 30% of output of the adhesive industry (Key Note, 1992) has assisted CL's internationalisation because international trade is considered normal practice within the adhesive industry. This acceptance of internationalisation in the industry has led to CL operating internationally from inception.

Because CL's product is easy to package and widely used in both industry and the household, all modal choices (indirect exporting, direct exporting, licensing agreements, FDI) are open to the company. However, the nature of WL's product makes transport more difficult and, in conjunction with the sector it operates in, makes other internationalisation options apart from indirect exporting, unfavourable.

Technological issues within the external contingent environment relate to the role of technology in production and the role of the development of new technologies. In the case of these two industries, the adhesive industry involves a greater amount of technology in

production. Adhesive firms also undertake a greater amount of technological development, developing new applications for adhesives to complement the development of new substrates (new types of materials with surfaces that need new types of adhesives to bond them).

Because of the development of new substrates, the adhesive industry is more internationally orientated because firms in the industry have exported to satisfy international demand for their highly customised product.

Technology has therefore had two roles in determining the differing internationalisation levels of these two firms. First it affects CL's attitude to the international market because the company can satisfy international demand for highly customised adhesives and also because domestic demand for high-technology adhesives is low. The lack of domestic demand means that the company must sell both domestically and abroad to cover R&D costs.

WL is not as highly internationalised because of the low-technology nature of the product and because the basic skills and tools required to produce such products are easier to acquire than those of adhesive manufacturing. Therefore there is not a great demand from abroad for these products since other countries will manufacture these products locally.

Because of the level of technology involved there are few producers worldwide resulting in high levels of demand abroad, which CL seeks to satisfy. There is not this level of demand for WL's product and therefore the company has remained domestically orientated. These points show how different factors in the industrial environment external to the firm and the level of technology in production and the product can interplay to cause different internationalisation paths.

### **8.2.3 Competition & Market Issues**

Two other issues that have led to the differing internationalisation levels of these two case study firms include the different levels of competition experienced, and the difference in markets available to each. The role these factors have played in affecting the case study firms' internationalisation paths is discussed below, to illustrate how this element of the external contingent environment affects the firms.

The manufactured timber products industry in which WL operates experiences high levels of competition because of low barriers to entry in the industry. These include low skill levels and inexpensive tools required to set up, as was seen in the late 1980s when WL was competing against "*start-up garage guys*" with significantly lower overheads.

The high level of competition in the timber manufacturing industry has been one of the factors constraining WL's rate of internationalisation on two fronts. Firstly the threat of lost market share domestically compels UK firms to retain their domestic orientation. Foreign commitments would drain resources from the domestic market making firms less competitive. Secondly, strong competitive pressures are also present in foreign markets making it more difficult for UK companies to compete abroad, a situation made worse by a lack of market knowledge. These hindrances are seen in the case of WL for whom dedicating resources to international operations is impractical.

The external competitive pressures for the case companies are quite different. WL experiences high levels of competition, and the only sector where the company does not experience high levels of competition is in the equestrian building sector, the only sector the company competes in internationally. The reason for the low level of competition in this specialised market segment is that there are few specialist manufacturers of equestrian buildings. However, the company operates in several other timber manufacturing sectors where competition levels are high, leading the company to dedicate more resources to them to maintain the company's market share. Equestrian buildings make up only a small proportion of WL's sales and so the company cannot rely on this segment to subsidise the others. Competitive pressures are therefore constraining the amount of resources the company can dedicate to international marketing.

For CL, the company operates in two distinct market sectors. The company experiences high levels of competition in the bulk adhesive market where barriers to entry are low. In the manufacture of cyanoacrylates competition is weak as CL is one of only three manufacturers in the Western world. Because other manufacturers of cyanoacrylates



maintain large profit margins, there is scope for the company to attain greater sales and profits by undercutting, greatly facilitating its internationalisation. However, because of these high competitive pressures in the bulk sector, CL has adopted a proactive marketing approach, unlike WL, whose approach is *ad hoc*.

The market for the products involved here is also an issue. The widespread industrial and household use of adhesives (Key Note, 1992) means that the adhesive industry has a greater potential market to serve. On the other hand, the strong link between the timber industry and the construction industry (Smith, 1988) has meant that the timber manufacturing industry has a much narrower industrial base on which to draw.

The adhesive industry is orientated towards a worldwide marketplace, whereas the timber manufacturing industry remains domestically orientated (Key Note, 1992; Smith, 1988).

When viewed at the industry level, a strong domestic market may assist firms' internationalisation (Chetty & Hamilton, 1996) by providing access to resources with which to exploit the international market. However, the adhesive industry is internationalising because of a lack of domestic markets and seeks to exploit foreign markets and expand.

For CL the company has needed to exploit wider markets to support the costs of production and R&D as well as to sell their products in sufficient volume. Because of these factors, the company has decided to adopt a proactive approach to international marketing. The company is, therefore, internationalising because of the limited scope of markets for their products domestically and the availability of large markets abroad.

For WL, the availability of a niche market in the manufacture of equestrian buildings has meant that the company does have a potential market abroad for its products. The company, however, also has a large potential market domestically. Because markets are available domestically the company retains a domestic focus. However, the size of its products makes the cost of transporting them overseas untenable, restricting the company to near Western European markets.

Competition levels and market size have therefore affected these firms' differing internationalisation levels. The overall effect of competition levels and market size is seen in CL's internationalisation mode and market choice in the USA, where, because of the size of the market and lack of producers of cyanoacrylates, the company has directly invested. It has, however, not invested directly where competition levels are high and

markets are smaller. In sectors where competition is high and markets are smaller, the company has adopted less risky approaches such as direct exporting rather than FDI or foreign sales offices.

For WL the overall effect of competition and market size has led to low levels of internationalisation. High domestic and foreign competition, along with a large domestic market has meant that the company does not need to internationalise to grow, but must however remain domestically orientated to survive in a highly competitive domestic environment.

Competition and market issues can be seen to play a significant role in determining the level of internationalisation in these two case study firms because the industry each firm operates in contributes to the level of competition experienced and the markets for its products.

The external contingent environment has therefore had several effects on the internationalisation levels of these two firms. The main elements here are summarised below.

- The External Economic Environment: this has affected WL where exchange rate fluctuations have led to negative perceptions of international trading. Although exchange rate variations have affected CL, the results have not been as severe.
- Industrial Issues: the international orientation of the industry has meant that CL has accepted internationalisation as common practice. WL has, however, remained domestically orientated due to the insular nature of the industry. In addition to this the ease of packaging CL's product means that the company can internationalise more easily than WL, whose product is bulky and difficult to transport.
- Technological Issues: the high technology nature of the adhesive industry, and constant innovation has meant that CL must internationalise to spread the cost of production and R&D. WL on the other hand operates with low technology tools and there is little innovation in the industry. It is therefore not forced to internationalise to justify costs in this sense.
- Competition Issues: because of the low barriers to entry in the timber manufacturing industry, competition levels are high for WL both domestically and abroad, making internationalisation more difficult for WL. CL however experiences low levels of

competition in specialist adhesives and has taken the opportunity to expand internationally.

- Market Issues: the widespread use of adhesives in industry and the household means that CL has a large market to serve and this has greatly facilitated its internationalisation. WL has a relatively smaller potential market and has to concentrate on the domestic market in order to survive.

### 8.3 The Internal Contingent Environment

The internal contingent environment relates to the role played by the nature of the firm (age, size, and character), business strategies adopted and the personal characteristics of the decision-makers. These issues are discussed below in turn.

#### 8.3.1 Nature of the Firm

The table below summarises the main differences between the two case study firms. The table shows that in terms of sales CL is larger than WL. CL also achieves greater export sales and possesses greater assets because of the capital intensive nature of the adhesive industry. There are also marked differences in export commitment, age, level of technology (as discussed above), the international experience of management and the style of management. Export commitment has, however, been affected by the other factors and the effect of these issues will be discussed in turn.

**Table 71: Differences between the Case Study Companies**

<b>Financials</b>	<b>WL</b>	<b>CL</b>
Sales	£7M	£12
Pre-Tax Profit	£204,000	-£181,000
Total Assets	£2.8M	£7.3M
Exports	£40,000	£6M
Export Commitment	LOW	HIGH
Age	80 years	17 years
Technology	LOW	HIGH
Managerial International Experience	LOW	HIGH
Competitive Pressures	High in most sectors	High in most sectors
Management Style	Reactionary and operational	Proactive and strategic
Business Strategy	Differentiation and focusing on core strengths	Focus (cost leadership and differentiation)

The role of age is important because of the greater acceptance of doing business internationally in more recent times (Dicken, 1986; Levitt, 1983; Porter, 1986). This acceptance is due in part to:

*“...the convergence of consumer preferences worldwide, the impact of changing technologies and scale economies on international industry structures, ...that have led to a rapid process of globalization [sic] in a large number of worldwide businesses” (Bartlett & Ghoshal, 1988, p. 1)*

CL was formed in this modern international environment, the early 1980s, and WL was formed in an era, the 1920s, when serving the immediate locale was of greater importance. The two companies have such vast differences in age that the effects of this gap are very evident. Had the gap been smaller the differences may have been less pronounced. Age plays a part in the internationalisation of these SMEs because the older WL has become embedded in operating in a domestic environment, and changing this orientation appears cumbersome and only a future prospect. It must be noted that companies that are considered old in this research are companies that became established prior to the 1980s, when a recognised increase in globalisation occurred.

In conjunction with other issues such as lack of international experience, discussed below, and industrial factors, WL's embeddedness due to age has led the company to choose the least risky modal choice, indirect exporting through agents. CL, with formation in a more internationally orientated environment, accepts all forms of modal choice as a potential option, dependent only on the volume of orders making the venture acceptable.

CL's potential market is worldwide due to the formation of the company in an era of greater international acceptance; therefore the company has become less embedded than WL.

The amount of previous international experience of the decision-makers has affected the companies' different internationalisation levels. CL's high level of previous international experience has led the firms' decision-makers to be more accepting of the international marketplace. Lack of this experience on the part of the decision-makers of WL has led to the firm being less accepting of international operations.

The level of previous international experience had by CL's decision-makers has led to an acceptance of the international market, where international business is considered as just *“slightly longer on a plane”*.

At WL, the appointment of a sales manager with previous international experience has failed to lead to greater internationalisation despite recommendations for greater support of foreign agents and a greater acceptance of the international market. The lack of international experience by the directors, has led to a negative attitude to the international market. The Sales Manager's recommendations have mostly been ignored or considered too expensive to implement. Her superiors, the directors, have overridden her views. The level of international experience is therefore important in determining the level of internationalisation in both firms.

Another element that has adversely affected WL's internationalisation is unfortunate experiences with international trade and foreign agents, because of exchange rate problems and difficult specifications by agents.

For WL, the effect of previous international experience on internationalisation is clear, where the Directors lack international experience and modal choice (foreign market entry choice) is mainly dictated by the expense that the company would incur if it operated through any other mode. Indirect exporting is the only option WL believes to be feasible because it does not want to dedicate resources to any deeper internationalisation mode.

CL's international activity has been stimulated by the employment of a scientist when the company was formed who had both international experience and foreign contacts. This led directly to CL's first international clients. Without these initial contacts and the knowledge of the scientist, CL may not have internationalised to the extent that it has.

The level of international experience within the decision-making team has also affected modal choices. Due to the wide range of international experience in CL, all modal choices are viewed as potential ventures for the company due to the decision-makers' wide international experience. The main factor affecting modal choice for CL is the amount of volume involved in the order.

Management style has also affected the different internationalisation levels of the two firms. WL's management style is more operational as the directors prefer a more hands-on approach to managing production. CL, on the other hand, has adopted a more strategic approach, where the decision-makers place a great deal of importance on a clear delineation of responsibilities for managing, production and distribution.

It appears that WL is constrained by the wider spread of the duties of the small management team, where the directors take a hands-on approach to management.

Therefore, the question must be posed that at some level, does greater separation from production for management facilitate greater internationalisation? Although WL's management claims not to see obstacles, they may in fact surface because of the structure that has been formed in the company. It can therefore be proposed that the organisation of the business in WL is a contingent factor that has led the firm down this particular path and has acted as a barrier to any deeper internationalisation. Family-run WL is not inclined to internationalise further because of the deep involvement the management has with the industry and the production process.

This is mainly because the main decision-makers of WL, the two directors, have come through the industry from the shop floor. They therefore retain a commitment to high quality products, which they feel will be compromised by stretching too far afield in geographic focus. This instils a distance factor into their market scope, constraining the potential markets they can exploit. It can therefore also be seen here that a lack of autonomy in management has constrained the time and commitment that can be applied to being proactive in international markets. A different management style, a more strategic style, has made it easier for CL to be proactive in the marketplace and provided greater opportunities to seek out new markets.

### **8.3.2 Business Strategies**

The firms operate quite different business strategies. WL operates a differentiation strategy (Porter, 1980, 1985; Reid, 1993). CL on the other hand operated a more focused strategic approach (Porter, 1980, 1985; Reid, 1993), where the firm stresses the uniqueness of its product as well as elements of cost control targeted at interrelated market sectors.

WL employs a differentiation strategy by stressing a quality product *and* service, emphasising the uniqueness of the package it provides. It has done this by focusing on the core strengths the company has accumulated over its lifetime, focusing on the craftsman skills it has developed. WL has decided on this focused strategy to exploit the domestic market; doing this on the international market is considered too difficult. This strategy revolves around the reputation the company has gained for providing a quality product and service to the customer.

WL focuses more on the domestic market because the directors believe it can provide a service profitably only to its domestic clients. Because the company has adopted these strategies it is able to sell and charge twice as much as its nearest competitor.

WL also serves bulk markets but again differentiates its product by drawing on the reputation the company has gained, for providing not only a quality product but also a quality service. Because it cannot exploit its core strengths to sufficient levels abroad, the company lacks commitment to the international market. Further, the company does not believe it can provide a high level of through its agents. Where it can achieve this level of service, the company's strategic commitment has increased, as is evident from the greater amount of support it gives its German agent who fits the ethos of the company in terms of provision of quality products and service, and a commitment to face-to-face contact.

CL employs a focus strategy where the company satisfies bulk adhesive demands in industry at lower costs as well as product differentiating in interrelated sectors for highly specialised adhesives. The decision-makers have realised that the company's main competitors operate on a significant profit margin, in some sectors as high as 85%. Because the firm has the ability to undercut its rivals it has concentrated on exploiting this end of the market; it also employs an expansionist strategy, shown by the company's FDI in the USA and distribution facilities in South Africa.

Because this potential for reaping greater profits has been identified, the company has a much greater commitment to the international market.

The strategy each firm has adopted has given each a differing focus, with WL being domestically orientated and CL being internationally orientated. The business strategies of each firm have therefore had a significant effect on its perceptions and dedication to the international market, and have subsequently led to the differing internationalisation levels seen.

### **8.3.3 Personal Characteristics**

The effects of this personal belief system are believed to play a more pronounced role in smaller organisations than larger firms, having a more direct effect on any outcome. This is evident in both cases, and of course has had different effects.

The family orientated nature of WL has led to the "need" for personal involvement with customers, and a strict adherence to quality. This is not only because the firm has been family-run from inception, but also because the decision-makers have progressed through the industry from the shop floor and retain a craftsman's pride and a desire to sell high quality goods.



In addition to this they are also averse to foreign markets because of difficult and sometimes impossible specifications by agents, and agents' reluctance to come to the UK to understand WL's operations, and establish face-to-face contact when conducting their business, which WL considers important.

The importance that the directors place on face-to-face contact is seen in their domestic orientation, because this is easier in the UK. They consider operating in this manner abroad as too difficult and expensive. This is unlike CL, who considers international operation as being no different from domestic operation.

WL internationalises less than CL because of an internal system of beliefs that constrains its international activities. WL views expanding deeper into international markets as risky and a drain on valuable resources. This path is considered risky also because of exchange rate risks and difficult, expensive, specifications from some EU agents. There is also considered to be a risk to the firm's reputation. WL is not willing to risk its reputation by over-stretching abroad and delivering a substandard product. WL's reputation is its main marketing tool and it needs to be preserved. Therefore, WL's export levels are lower in order to retain larger profits in accordance with the strategies it has employed. By retaining its reputation it can retain its domestic market share using product differentiation and focusing on its core strengths.

The management and staff of CL view international operation as normal practice. They have a greater acceptance of foreign markets because of the youth and education of key personnel (most sales and marketing staff are trained in foreign languages and have travelled extensively abroad). The personnel at CL have been educated and grown up in an era where communications technology is more advanced, which has led them to be more accepting and understanding of other cultures and locales. Psychic distance therefore has a role to play in both organisations.

Like WL, CL also adheres to a high level of quality, but motivated more by a desire by the management to maximise profit. The main UK decision-maker for CL, the current MD, was a broker on the stock market in the City, and approaches the management of the company from a strict "business" fashion to obtain profits, rather than out of a genuine interest in the specific industry, as is the case with WL. This has led to the company being more extensive in its market search, with the primary goal of growth and profit maximisation.

The key factors in the internal contingent environment that has had an effect on the internationalisation levels at WL are therefore:

- the embeddedness of the company because of age
- low levels of previous international experience
- the negative perception of international operation
- the operational (hands-on) management style
- the differentiation strategy which focuses on stressing the product's uniqueness
- the risk-averseness of management
- the importance management places on face-to-face contact
- the large psychic distance the decision-makers have
- the more intimate relationship with the timber manufacturing industry that the decision-makers of WL.

The key factors in the internal contingent environment that have had an affect on the higher internationalisation levels at CL are:

- the youth of the firm and its key players
- the high levels of previous international experience by the decision-makers
- the strategic management style
- the cost leadership strategy the firm has employed
- the low psychic distance of the key players
- a goal of profit maximisation by the directors

Most of these are factors proposed by Dichtl *et al.* (1990) as affecting the level of commitment a company will have to the international market, with the exception of strategies employed and management styles. The next section will analyse the manner in which these contingent environments (both external and internal) have interacted with the underlying structures to produce the outcomes seen, where WL is a low level exporter and CL is a high level exporter.

#### **8.4 The Interaction of Structures with the Contingent Environments**

Structure concerns the accepted ways of acting or normal practices that carry particular powers and liabilities because of position within the structures (Lawson, 1997). Structure has given these firms various abilities, whether they are termed powers or liabilities or obligations. These two firms have the ability to produce, the ability to export or not, and other various powers and obligations related to their position within the relevant structure.

The two structures affecting the differing internationalisation levels of these two firms are the capitalist mode of production and the supply chain. There are, however, other structures that could affect the operation of these firms' activities such as the business organisation as structure, or the business legislative system as structure and their attached powers and liabilities as proposed by Dunham *et al.* (1996). However, the primary concern here is with the structures that are of primary importance in leading to the differing internationalisation levels of these firms, which appear to be the capitalist mode of production and the supply chain.

In the capitalist mode of production the desire to retain surplus value is of primary importance because the firm needs to do this to survive. Under this structure the decision-makers have the power to exploit resources to achieve profits while incurring certain liabilities inherent in capitalist production. The decision-makers also have obligations towards the units of production, labour and capital. The retention of surplus value is dependent on the efficiency with which the decision-makers can exploit these units of production.

The supply chain as structure is described as "*...the necessary relationship that exists between customers and suppliers- [which] exposes a liability on the part of the decision makers to act in a manner that is consistent with their customers' requirements*" (Dunham *et al.*, 1996: p.4). The supply chain therefore dictates that the producers have the ability to satisfy demand. However, although they have the ability to satisfy this demand, the structure does not dictate how this demand will be satisfied.

The idea that structures can have different (or the same) effects dependent on the contingent environment is one element of a critical realist approach. This is seen in the case studies where both companies are affected by the capitalist mode of production and the supply chain, but have differing outcomes, where WL's export levels are low and CL's export levels and international involvement are high.

The two structures have interacted with the internal and external and internal contingent environments to produce the outcomes seen in these two cases. Table 72 shows the manner in which these two structures have interacted with these environments to produce the current export levels of the two firms and the strategies chosen by each firm. These strategies have had a major influence on the differing paths taken by the two firms and the subsequent export levels they experience.

WL's internationalisation has been affected by both the capitalist mode of production and the supply chain interacting with the external and internal contingent environment. The role of the capitalist mode of production is analysed first.

Because of industrial issues (the domestic orientation of the industry), and the personal beliefs of the directors, the directors have chosen what they believe to be the best option to maximise profits. The strategic option the company has chosen is to remain domestically orientated and focus on the company's core strength, the provision of a quality service and product, which it believes is too difficult to provide abroad. Where the company does internationalise it has chosen a low risk approach, indirect exporting through agents. The capitalist mode of production has therefore caused the firm to adopt a strategy that it believes will yield maximum profit.

**Table 72: Main Structural Influences on Case Study Firms' Internationalisation Levels**

	<b>Capitalist Mode of Production</b>	<b>Supply Chain</b>
Woodchip Ltd. (WL)	Interacted with external contingent environment, especially industry, and the internal contingent environment, mainly because of the nature of the firm; has led the firm to choose the most profitable strategic option which includes a domestic orientation and a low-risk internationalisation strategy, indirect exporting through agents.	Interacted with the external contingent environment, especially industry, and the internal contingent environment, mainly because of the personal beliefs of the directors; has led the firm into choosing a strategy which adheres to the demands of its customers and exploits the company's core competencies. Customers expect a high quality product and service and WL has adopted a strategy preserve its reputation. Because it can only guarantee this service domestically the firm lacks commitment to the international market. Where it can guarantee this level of service, commitment is higher, as seen with the location of an agent in Germany with the same ethos as the directors of WL.
Cuestick Limited (CL)	Interacted with the external contingent environment, especially industry where there exists opportunities to exploit high profit margins, and the internal contingent environment, mainly because of the personal beliefs of the key players; has led to the company adopting a strategy of market expansion because of the potential it provides for achieving greater profits.	Interacted with the external contingent environment, especially in terms of industry and specialist markets (cyanoacrylates), and the internal contingent environment, especially the personal beliefs of the key players (accepting of the international market and a profit orientation); has led to the company adopting a product differentiation strategy because of the lack of other suppliers in the industry.

The supply-chain has also affected WL where customer demands are of primary importance. Because of the expectations of its customers, the nature of the industry and the beliefs of the Directors, WL is expected to supply a quality product and service. The Directors believe that this is only possible domestically and that when operating abroad the firm cannot provide this service. The company has therefore retained a domestic orientation and has exploited its core competencies where its product is differentiated in the domestic market.

Although WL may remain domestically orientated due to industrial issues and personal beliefs interacting with the capitalist mode of production and the supply chain, the desire to expand internationally has been motivated by another contingent factor interacting with the supply chain, the location of an appropriate agent in Germany. Because the company has located an appropriate agent, the company is more willing to dedicate resources to support the agent and expand its export sales. The location of an agent that suits WL's beliefs allows the company to retain its reputation and follow its strategic path, as dictated by the expectations of its customers, i.e. the supply chain.

The supply chain here is mainly the influence of the end user's (customer's) demands, and in WL also includes the role of foreign agents. WL therefore retains a domestic focus because of 1) the demands of its UK customers, 2) its adverse perception of the international market where the demands of foreign customers and previous experiences with agents posed difficulties.

The first factor is wholly related to the supply chain structure as WL seeks to satisfy its UK customers' demands for a high quality service and product. By doing this, WL constrains itself to the domestic market, as it is not fully able to provide this quality service abroad. This point interplays with the capitalist mode of production. That is where, WL also prefers not to meet difficult specifications because of the effect it has on profit levels. The problems here are exaggerated by external contingencies, namely the state of the receiving country's economies and previous damaging experiences with foreign agents. Recent problems with exchange rates have led to agents abroad suffering severe losses. Although the company possesses the ability to satisfy customer demand (as dictated by the supply chain) the supply chain has however not dictated the manner in which the company has gone about achieving this.

The current export levels of WL show that not only do individual structures interact with the internal and external contingent environment, structures also interact with one another.

This is seen above where the desire to meet customer demands (the supply chain) is also influenced by the desire to retain profits (the capitalist mode of production).

CL's internationalisation behaviour is also motivated by the capitalist mode of production and the supply chain. Here again the company has the ability/obligation to retain surplus capital and meet customer demands, however its method of operating within these structures is not given, it is contingent on the circumstances of the firm.

CL has internationalised to the degree that it has primarily because of the industry it is in, the nature of the product, and the internal contingent environment at the time of formation, i.e. the employment of a leading scientist in the industry with international contacts. The capitalist mode of production has interacted with the industry, because of its provision of profitable sectors and a wide market sphere, and the personal beliefs of management, who have a profit orientation and a greater acceptance of the international market. This has led the company to adopt a strategy where it can exploit market size abroad to achieve greater profits as well as cover R&D costs. This has led to the high levels of exports the company currently enjoys.

CL's internationalisation is also affected by the operation of the supply chain as structure because of the powers and liabilities it enforces on the operation of the firm. Because of the demands from customers, both in industry and in the household, CL has a market sphere that is worldwide. With a market size of this magnitude CL can make high levels of sales, and make greater profits (the capitalist mode of production). The lack of producers overseas in some sectors that CL operates in, in a way compels CL to export worldwide to satisfy demand. Therefore customer demand is important here, because CL is one of the few suppliers of cyanoacrylates and has moved into the international marketplace where it is easy to operate.

Lack of domestic demand also pushes the company in to the international market to cover overheads and achieve a profit.

The other level at which the supply chain has affected the internationalisation of CL is in the rapidly changing demand trends, the advances in applications, and the development of new substrates. Because of the level of research and development needed in the industry to enable companies to retain market share and keep pace with demand, the industry as a whole is forced to internationalise to exploit market size and finance R&D costs. This is one of the main areas where the level of technology in the industry affects internationalisation paths. Unlike WL, CL is in a manner forced to internationalise so that

R&D costs can be justified. Because of these factors CL has taken a proactive approach to international market development and marketing, ensuring there are appropriate market segments that can be exploited.

Although both firms' international activity is influenced by a capitalist motivation, the results seen are quite different. In order to retain maximum profits, WL believes it must concentrate on the domestic market to preserve the reputation it has achieved, which is important in the product differentiation strategy it employs. For CL, in order to retain maximum profits the company has employed a market expansion strategy to exploit market size abroad and justify the costs of R&D.

The effect of the capitalist mode of production has therefore affected both these firms, but to differing degrees. This is one of the main assets of the critical realist approach where, even though different effects are seen, the identification of structures at play has enabled a deeper understanding of the processes at work. The capitalist mode of production has led to WL making small ventures into the international market and CL being deeply internationalised. WL's motivation is to achieve profits by the retention of its high quality reputation and the minimisation of its international activity. This is why any internationalisation is through *ad hoc* orders, and any deeper commitment to international marketing and support for its agents is lacking.

CL's internationalisation is also motivated by a desire to maximise and retain profits, but it attempts to achieve these goals by exploiting the size of the international market and committing fully to the international market. Because of this, there is a proactive approach to its internationalisation strategy.

Overall the capitalist mode of production has interacted with the relevant contingent environments to pull CL abroad to exploit profitable opportunities, and pushed WL into remaining domestically orientated. The supply chain has on the other hand pushed CL abroad to satisfy demand while pressing WL to remain domestically orientated in order to provide the level of quality service its customers expect.



## 8.5 Summary

According to the stage models (Johanson & Vahlne, 1977), WL because of its age should have progressed through certain defined stages and be deeply internationalised, and CL should be finding its feet on the international stage. This is, however, not the case as WL is a fledgling exporter and CL is a deeply internationalised firm. The issue of age acts as a facilitator in CL's case because the company was formed in an era of greater international awareness. So the company has had to compete on this scale from inception and did not have the opportunity to develop practices that would have embedded it in the domestic market. This embeddedness is seen in the case of WL, where the company has become embedded in the domestic market because of its formation in an era of lower international acceptance, serving a purely domestic market. This domestic orientation has continued throughout the life of the company and this has led to its current reluctance to internationalise deeper. This is one of the main points analysed in this chapter, the context-dependent nature of the internationalisation decision.

Several factors have been shown to be important to the SME internationalisation process. These factors have included the perceptions of the decision-makers, the age of the firm, domestic market conditions, industry issues and the nature of the product itself. To uncritically accept the "stage approaches" of the Uppsala School would mean ignoring these factors and the context-, time-, and location-specific decision-making process.

By appreciating the constraints and powers that individuals possess from the structures that influence their actions, and with regard to the specific circumstances surrounding decision-making, a clear picture has been established as to why, as individuals influenced by similar structures, we can make different and opposing decisions because of the role played by the contingent environment. By an appreciation of context and the contingent environment a clearer picture is painted as to why the two companies used as case studies have made certain decisions and followed different paths.

Table 73 highlights the main issues identified as being important in the internationalisation process of the SME (Industry, previous international experience, age, perception of competition, and technology) as they relate to the external and internal contingent environment.

**Table 73: Main External & Internal Issues Affecting the Case Companies**

	WL	CL
<b>External Environment</b>	<p><b>Economy:</b> Adverse exchange rates and recessionary problems.</p> <p><b>Industry:</b> High quality niche and good domestic market. Domestic orientation of industry. Nature of product leads to geographical constraints.</p> <p><b>Competition:</b> High international competition and low domestic competition have led to concentration on domestic market</p> <p><b>Technology:</b> Low levels of technology relate to low barriers to entry.</p>	<p><b>Economy:</b> Adverse exchange rates, local devaluation in SE Asia.</p> <p><b>Industry:</b> International orientation of industry. Nature of industry means potential market is worldwide, lead market is USA</p> <p><b>Competition:</b> Operates in sectors with few competitors; has a good domestic market. Low levels of competition in some sectors stimulated marketing in that direction for greater profits</p> <p><b>Technology:</b> Achieving of core competency and market niche. Hi-tech led to internationalising to justify costs and exploit market size</p>
<b>Internal Environment</b>	<p><b>International Experience:</b> Sales Manager's previous experience and lack of experience by directors. Lack of experience of other markets outside Europe</p> <p><b>Age of Firm:</b> Led to embeddedness in domestic market.</p> <p><b>Strategy:</b> Differentiation strategy has led to a domestic orientation to exploit core strengths.</p>	<p><b>International Experience:</b> Leads to greater acceptance. International activity considered as essential. All options available due to experience of all modal choices</p> <p><b>Age of Firm:</b> Not embedded in domestic market</p> <p><b>Strategy:</b> Focus strategy has led to expansion to exploit market size and justify costs.</p>

From the information analysed from the case studies it can be seen that the main issues involved in the internationalisation process centre around the industry the firms operate within, the age of the firm and the international experience of the decision-makers.

From the analysis, the desire to maximise profits and meet customer demands has led to two different results in the case firms because of each firms' contingent circumstances. For WL, the effect has been to constrain its international activity. For CL, the opposite effect is seen where, because of industrial factors and previous experience, the company is able to exploit the international market to a much greater degree.

The analysis has therefore shown that there is not a simple association between cause and effect when analysing differing internationalisation levels between firms, especially the SME, where individual character plays a more pronounced role than in larger organisations. In order to understand the internationalisation decision it is therefore important to understand the entire contingent situation of an organisation.

## **CHAPTER 9: SUMMARY AND CONCLUSIONS**

## 9.1 Introduction

The main aim of this thesis was to provide a clearer understanding of the SME's internationalisation process by the use of a critical realist conceptual framework. A critical realist framework was adopted because this approach can provide understanding of the causes of a particular phenomenon at a deep level. These causes are believed to lie at the level of structure, where the external and internal contingent environments have interacted with underlying structures to produce the differing internationalisation levels seen in the firms in the case studies. Specifically the aims of the thesis were:

- To identify the extent to which SMEs in the East Midlands are involved in the international market and their main attributes.
- To understand the factors that cause differing internationalisation levels
- To demonstrate the use of a critical realist framework in supplying a practical method for the study of SME internationalisation.

These aims were achieved by applying a two-pronged, mixed, methodology, in accordance with critical realist beliefs to facilitate an understanding of the internationalisation of the SME.

In addition, to assist in fulfilling these aims, Chapter 2 presented the existing literature on internationalisation from the two dominant perspectives, the "stage approach", as drawn from the Uppsala School, and the behavioural and network models of the New Zealand School and others. It has been established through an examination of these approaches that the SME internationalisation process is a context-specific phenomenon, which the generalising "stage approaches" could not facilitate or explain. This is especially in relation to the *ad hoc* nature with which SMEs approach international markets and the different characteristics possessed by the SME in contrast to larger companies.

Several factors have been shown to be important to the SME internationalisation process. These factors have included the perceptions of the decision-makers, the age of the firm, domestic market conditions, industry issues and the nature of the product itself. The study has demonstrated that to uncritically accept the "stage approaches" would mean ignoring these factors and the context-, time-, and location-specific decision-making process.

By the use of a critical realist framework, researchers are able to understand the influences behind the decision-making process. If the inter-play between structure and agency is

appreciated as a mutually causal and reinforcing relationship, where neither the agency of humans is dominated by the structures they have formed, or structures changed easily by the actions of human beings, then theoretical inferences about human action can be reached. This is the ability that a critical realist framework provides. The rest of this chapter reflects on the main findings of the current research in relation to the links to previous research and how the research approach has assisted in fulfilling the original aims. Difficulties encountered and future research directions will also be discussed.

## **9.2 Previous Internationalisation Research and Links with Current Study**

Literature on the internationalisation of the SME has followed two main themes. The deterministic stage models of the Uppsala School treat internationalisation as a step-by-step learning process, while more recent approaches treat the process as more context dependent.

The stage models suggest that the internationalisation of the firm will increase over time as experience increases (Johanson & Vahlne, 1977), not allowing for stasis or de-internationalisation. Case Company 2 (CL) has demonstrated the inadequacy of the stage approach, where the company exported from inception, skipping the initial domestically orientated stages seen in these models (Wiedersheim-Paul *et al.*, 1978). The firm's exporting from inception was due in part to the nature of the industry, but mostly due to the previous experience of key personnel, and the belief by the decision-makers that international operation requires only "*slightly longer on a plane*".

More recent network and behavioural models have provided a more causal understanding of SME internationalisation. These models identified several more context specific factors as important in the internationalisation process of the SME. These included factors related to managerial and organisational characteristics (Chetty & Hamilton, 1997). Several barriers to SME internationalisation were also identified. These factors are discussed below.

### **9.2.1 Managerial and Organisational Characteristics**

Managerial characteristics that were identified as important confirmed the observation by Calof & Beamish (1995) that management attitudes towards international operation were the most important facilitator of internationalisation. Reuber & Fischer (1997) also showed that management experience directly influenced organisational outcomes. These were important contributors to CL's current success. For Case Company 1 (WL) the lack of success the company has realised in internationalisation is directly related to the lack of enthusiasm the directors manifest towards internationalisation, and their lack of previous international experience.

Bell *et al.* (1998) suggests that management with greater international exposure will be more receptive to international ventures. This is clearly seen in the firms' export levels, with CL currently exporting over 50% of production and WL exporting less than 1% of production in 1997. CL's large commitment to the international market is because of previous positive experience that has led to the belief that international operations mean only longer journeys. Because of the potential for greater profits and growth, CL demonstrates a large commitment to the international market, with over 50% of its sales being abroad. WL's commitment to the international market is low, because of negative experiences abroad, a lack of international experience and a belief that international sales can be detrimental to its domestic market share, because of the effect it can have on its reputation.

In terms of organisational characteristics that were deemed important, the following were identified from previous research (Bell *et al.*, 1998; O'Farrell *et al.*, 1998):

- product uniqueness
- competitive pricing
- technological intensiveness
- innovation
- tradability of the product

The results of the questionnaire survey and the case studies showed that technological intensiveness was indeed a factor in the internationalisation of these firms. This is especially evident in the exporting group where high technology firms had higher export

levels. Also from the analysis of all the firms in the sample (exporters and non-exporters) higher technology firms had a greater representation in the exporting group.

At the level of the firm, as investigated through the case studies, these areas were indeed significant. This highlights the inadequacy of the stage approach to internationalisation where the export success of a firm was considered dependent only on “the learning curve”(Johanson & Weidersheim-Paul, 1975).

### **9.2.2 Barriers**

Several barriers to SME internationalisation have also been identified from previous research. The main barriers are outlined below.

- negative attitudes to international operation (Smallbone *et al.*, 1996)
- family firms less likely to internationalise for fear of losing control (Smallbone *et al.*, 1996; Bell *et al.*, 1998)
- lack of resources (Berra *et al.*, 1995)
- embeddedness, older firms delayed longer before internationalising (Reuber & Fischer, 1997)

These barriers are all seen in WL where the company lacks commitment and success on the international market. In addition to this, Dichtl *et al.* (1990) identified several characteristics of managers that would cause them to be less likely to internationalise. These characteristics included:

- a large psychic distance
- greater age
- a lower education level
- lower language proficiency
- less well travelled
- risk averse and rigid
- a negative perception of foreign work on family life
- an overall negative attitude to exporting

Of all these factors, the only one exhibited in the questionnaire survey was that of embeddedness, where younger firms were internationalising earlier in their life than older

firms had. However, the case study of WL revealed several of these barriers, all tending towards the company's lack of commitment to the international market. CL's internationalisation on the other hand has been successful because they have not encountered these barriers. It is not the case that the directors of WL are uneducated, but the nature of their education is wholly within the timber manufacturing industry, with both Directors having come through the industry from the factory floor. This has led to a blinkered approach by both Directors and the domestic orientation of the company.

### **9.3 Main Attributes of East Midlands SMEs**

The questionnaire survey assisted in achieving the aims of this research in two ways. Firstly, the survey and the secondary data source provided information on the main attributes of the sample of East Midland SMEs. In addition, the study also provided the means by which to organise the case study element of the research.

The results of the survey have shown that East Midland SMEs appear to be prospering with a significant proportion of firms reporting increases in sales, profits, employees, capital investment and R & D over the previous two years.

Among the East Midland SMEs was a high proportion of internationally active firms, and indeed internationally active firms were larger than their domestically orientated counterparts in terms of employees, turnover, turnover per employee, capital employed, and profits earned. In addition, the industrial profile for exporters included more technologically advanced industries, and managers in exporting firms also had a higher level of previous international experience.

Other issues identified from the survey were that exporting firms' decision-makers had a completely different perception of competition levels in their markets, and viewed regional competition as moderate whereas non-exporters viewed it as high. In addition to this, there was a distinct role played by age, where younger firms in the survey internationalised earlier.

The level of causality of these factors; size, industry, previous international experience, perception of competition and age; cannot be ascertained from the survey alone within a critical realist framework. The survey, however, provided the areas for deeper investigation using the case studies to provide a clearer understanding of how and why these issues affect SME internationalisation.



#### **9.4 Main Structures and Contingent Factors Influencing Internationalisation**

The main purpose of using a critical realist framework was to understand the main causal factors of SME internationalisation by analysing firms at a real level. Event outcomes are believed to be caused by factors at a “deeper” level, the level of structure. Structures determine outcomes through interaction with the contingent environment. Structures may or may not lead to an outcome dependent on the presence of the contingent circumstance for an action to be realised.

From the results of previous chapters the main structures that have led to the outcomes seen included the capitalist mode of production and the supply chain. Although different outcomes are evident from the same stimuli (small steps into the international market in WL, and deep internationalisation in CL), the effect of these structures is clear. The supply chain as structure is especially evident in WL, where the company lacks commitment to the international market because of the expectations of its domestic customers and the potential adverse effects international operations could have on its reputation. Identified structures can have differing effects, depending on the contingent environment, and this is clearly seen in WL. With the location of an agent in Germany that operates within the ethos of the company, WL has made a greater commitment to that market because it believes that by working with this agent it will be able to preserve its reputation and meet the demands of its customers. This shows the importance of understanding the role of structures and how they interact with the contingent environment.

The most prominent structure in these companies is the capitalist mode of production, which has resulted in two different outcomes in the two case companies. Both companies aim to maximise profits. CL seeks to maximise profits by exploiting market size worldwide. WL seeks to maximise profit by employing a strategy of differentiation and exploiting its core skills. WL believes it must preserve its reputation so as to be able to sell twice as much and charge twice as much as its competitors in the equestrian building sector. WL does not believe it can do this if it was to internationalise any deeper, and therefore to preserve its reputation, its lifeblood, it must retain a domestic orientation.

The role of the supply chain as structure is also important to both of these companies. This is because the supply chain has forced WL to remain domestically orientated to preserve its reputation, while CL has been forced to structure the company to meet customer demand and hence internationalise to justify the costs of R&D.

There are also several external and internal contingent influences on these two firms' internationalisation levels. These environments are discussed below.

#### **9.4.1 *The External Contingent Environment***

It has been seen that the industry within which each company operates influences its international operation. WL operates in a domestically orientated industry and this is partly the reason for its domestic orientation and lack of commitment to the international market. The opposite is true of CL. Because of the nature of each industry, these factors have greatly influenced their directions. This is mainly due to competitive pressures, where WL experiences high domestic competition because of low entry barriers in some sectors, and CL experiences high entry barriers to the particular products that provide it with its highest profit margins. CL was able to overcome these barriers because of contingencies at the time of formation, the employment of a scientist with the ability to produce the product being one of them.

One of the main contingent influences here is the identification of appropriate partners. For WL, the identification of an appropriate agent has spurred the company to give greater support to the international operation. For CL, an appropriate partner emerged as a scientist from one of its competitors with the knowledge and contacts to enable entering the international market easier.

Exchange rates (and the strength of the pound) have affected both firms, but more especially WL, which feels it cannot compete abroad, especially with lead times of over 6 months and hence uncertainty about pricing specifications for agents.

#### **9.4.2 *The Internal Contingent Environment***

A strategic management style and lack of an emotional attachment to the industry are two factors that have influenced the deep internationalisation of CL. Coincidentally, an operational management style and a passion for the industry have led WL to dedicate little resources to international marketing and to concentrate on providing a quality product and service to its domestic customers. Can it therefore be proposed that these are two factors that influence the internationalisation of the SME? These factors may be important but as seen in the analysis of these two companies, there are several other factors influencing the different internationalisation paths taken.

Initial bad experiences on the international market, due to economic problems in the receiving market and inappropriate partners have affected the perceptions of WL about

operating on this scale. This has subsequently led to its lack of commitment to the international market. Adverse experiences were also had by CL, but because it had previously had favourable experiences and results, the company persevered and the result now is that it exports over 50% of its production.

The attachment to the industry by the personnel in each company is also important. Having entered the industry from the shop floor, and reached the top of the company, the main decision-makers of WL have an appreciation of craftsmanship that has led to a dedication to quality. This dedication has made them retain a domestic orientation, as they do not believe they can supply a quality service and product abroad. The industry here is not viewed as just a vehicle to gain profits, but a more intimate relationship is seen. This is unlike CL where a certain detachment has led to the company/industry being viewed as merely a means to an end, greater profits.

It can therefore be seen that the effects on these companies' international activity are caused by factors on several levels. These levels include the industrial level, the firm level and the personal level. Each of the case study companies has been influenced on these levels to differing degrees. The roles of these environments are outlined below.

- At the industrial level, the level of domestic competition and international orientation is important. High domestic competition and a low level of internationalisation have led WL to internationalise on a small scale only. CL has on the other hand undergone rapid internationalisation and acceptance of the international market.
- At the firm level, age is of major importance in these two cases. WL is an old family-run firm with a dedication to quality of service and product. It has become embedded in the domestic market over the years and finds internationalisation an alien concept in some respects. Also, as highlighted by Bell (1995), family-run firms are less likely to internationalise for fear of losing control. CL is a young company where the decision-makers feel part of the global village and accept exporting as merely the same business but farther away.
- Strategic management practices of CL have facilitated its internationalisation to a greater degree than the hands-on management practice of WL. This is because more time has been spent on planning strategic action and CL has clearly benefited from this.
- From the analysis above it appears that for these two firms factors internal to the firm are more important than the external environment in affecting internationalisation.

- Previous international experience has been shown to be one of the main factors facilitating internationalisation as discussed and clearly seen in CL. In WL, one of the key players is pressing for deeper internationalisation, that is, greater marketing and administrative support for foreign agents, and is the only member of the team with international experience.

From the discussions above it is seen that there are many influences on these companies' internationalisation processes. In summing up the main findings, it is apparent that for both firms, the main factors that have influenced their differing internationalisation paths stem from the orientation of their respective industries, the level of previous international experience, and the age of the firm, and the effect this has on the level of embeddedness in the domestic market.

#### **9.5 A Critical Realist Conceptual Framework : A Reflection**

The current study has demonstrated how an explicit conceptual framework can assist in delineating the main areas for investigation. Critical realism provides a framework for understanding the role played by "deep" structures as they interact with prevailing contingent conditions.

A critical realist framework is venturesome in practice and in this sense a risky approach, as previous research has paid scant attention to applying a philosophy that has generated much theoretical debate. Of the main difficulties in utilising this approach, the primary problem was a conceptual one, where an anti-positivist philosophical approach was utilised in conjunction with both quantitative and qualitative research methods. The issue is, therefore, how can such a philosophical approach utilise quantitative research to answer research questions, but still remain anti-positivist? The answer lies with the manner in which quantitative results are interpreted. Positivists utilise the results of quantitative research to infer causality as they accept a flat version of reality, where knowledge is gained only from the empirical/observable environment.

Due to the differing belief of critical realists, where causality is believed to be grounded within mechanisms in deep structures, causality is not inferred from the results of quantitative analysis. Quantification is only used here to provide description of the subject of interest, the SME, and assist in identifying any tendencies within such organisations. The results are utilised as a starting point with the ultimate goal of understanding the internationalisation process of the SME.

Despite these problems and a lack of a practical application of a critical realist philosophy, an attempt has been made here to apply it. This attempt was made as critical realism is consistent with the belief of the researcher that we all act in response to underlying, deep, structures. However, these structures are not believed to determine the exact form of the decision outcome, merely guide or restrict the number of options available. The eventual decision outcome is believed to be governed by personal beliefs and other internal and external contingent circumstances interacting with these deep structures.

By drawing on a critical realist conceptual framework the potential areas that may affect eventual outcomes have been outlined, leading to the development of a methodology for investigating these areas. The areas that affect outcomes are believed to exist within the external and internal contingent environments, and by investigating these areas separately their interaction can also be understood.

The stage approaches propose that internationalisation increases over time as part of a learning process. However, the current study has shown that industrial/sector issues and general economic conditions in the external contingent environment, and management characteristics, the age of the firm and technology in the internal contingent environment, all have a role to play in the resulting internationalisation level of the firm.

These contingent environments have interacted with underlying structures, and the powers and liabilities inherent in each, to produce the differing internationalisation levels seen. This is because the powers and liabilities inherent in each structure have led the decision-makers in each firm to choose different approaches to their business strategies, and hence internationalisation levels.

Critical realism therefore deals with issues in many areas, and was therefore a difficult framework to apply, especially because there is an abundance of different interactions between the contingent environments making relevant structures difficult to tease out. With many references to profit, it however became apparent that one of the structures important to both firms was the capitalist mode of production because of the powers (abilities) and liabilities (obligations) of the decision-makers. The ability to add value to inputs, to produce and sell, and the obligation to remunerate employees and pay for inputs are the main activities involved within this structure.

The effect of the supply chain as structure was highlighted by the ability the firms had to satisfy demand for highly specialised products and the obligation they have towards satisfying this demand because there are few other suppliers in the specific sectors.

However, despite both of these structures being important to the operation of both firms, different outcomes were seen, where one firm experienced high levels of internationalisation and the other low levels of internationalisation. These different outcomes were due to the different contingent environments experienced by each. This is where industrial issues, external economic issues in different markets, age of the firms, and the differing levels of previous international experience by the decision-makers have all contributed to different attitudes to the international markets, different business strategies and hence outcomes seen.

The critical realist conceptual framework used here has therefore shown that by studying the external and internal contingent environments the role of structure can be extracted, assisting in understanding the differing internationalisation levels of these two firms in context.

## **9.6 Difficulties Encountered**

The current research has experienced problems that have had serious effects. One of the main problems stemmed from a lack of willingness of respondents to the questionnaire survey to participate in the case study element of the research, despite agreeing in principle on returned questionnaires. This has however, led to the two case study firms being investigated in greater depth than would have been possible if more case study companies had been used.

Secondary data acquisition was not a problem because of the OneSource database that draws on a sample of firms supplied by Companies House. The non-reporting of data to secondary data source was, however, a problem, especially where some exporters that responded to the questionnaire were classed as non-exporters in the original database, causing problems in comparing respondents and non-respondents. This was however not a major problem.

The main problem in conducting the case studies was the reluctance of the management to part with documentation in terms of financial data, especially CL. Personnel in both firms were, however, more than willing to converse at length about themselves and the company and at times, the volume of information was difficult to record.

## **9.7 Future Research Directions**

From this research and the lessons learnt, it would be interesting to take a longitudinal approach to studying the firms that responded to the questionnaire and especially the two case study companies. This would be to establish the extent to which the effect of the issues identified changes over time and how personnel's attitudes change over time as they encounter different situations.

As mentioned above, more case study companies would have been desirable in order to assist in theory building as to what are the deep causal influences of SME internationalisation. Conducting studies similar to this one under different economic and social circumstances would also assist in theory building, as it would provide the potential to understand how structures and contingent environments operate under these different conditions. This is in line with the work of Bell (1995) where a cross-national study of Finland, Ireland and Norway was conducted to show the effects of different demand conditions, government policies and competitive environments on the internationalisation of the SME.

In consideration of the theoretical framework for the current study, critical realism, the application of this framework in other decision-making areas would add to the development of this approach in a wider research arena. This would expose the benefits, and indeed highlight its shortcomings, to a wider audience. This would assist in the development of this framework by opening it to greater constructive criticism, which could only be of benefit to its future applications.

## **9.8 Final Words**

The current study had a primary aim of enhancing understanding of the internationalisation of these SMEs. By adapting the case study approach within a critical realist conceptual framework the study has shown that the internationalisation process is more context dependent than the "stage" models suggest. In addition to this, recent research has accepted this and has attempted to understand the internationalisation decision in context. However, conceptual frameworks have not been made explicit. The current study provides such a conceptual framework that appreciates the differing roles of underlying "deep" structures and the external and internal contingent environments.

By the provision of this framework the differing influences on these firms' internationalisation can be understood in context, providing a more robust analysis of the

differing internationalisation levels seen in the two firms. The critical realist framework has therefore allowed the study to show that under different contingent circumstances, structural influences can have different effects on the internationalisation level of the SME, showing the process is not as deterministic as predicted by the “stage” models of the Uppsala School.

Overall, the study has shown that there are many important aspects to the internationalisation process, where conflicting paths are seen under the same structures, the capitalist mode of production and the supply-chain, because of particular contingencies at work within each company. Without studying these companies in this manner, these contingencies would not have been established and the deep causal factors could not have been understood. Asking *why* certain paths have been taken, and continuing to ask why, has enabled a greater understanding of the influences on the internationalisation process of these SMEs. The actions taken here by the case companies have been understood by establishing what has occurred and why it has occurred. Different actions have been taken, but from the discussions above, these different actions can be understood.

The study has rejected the use of a positivist framework, and instead of explaining what has happened, the underlying factors that have led to the actions of these firms has been *understood* by establishing *why* certain actions have been taken.

The methodological implications of the framework presented (critical realism) are not groundbreaking. It should be realised that there are certain limitations to the methods currently employed in this field and that the subject of interest and the object of study should govern the methods employed rather than arbitrarily applying accepted methods of social science to every aspect of social life. Methodology should be guided by the aims of the research and the object of study. One of the aims here was to provide *understanding* of why these SMEs followed different internationalisation paths, not prediction or generalisation of the overall process. A critical realist framework has enabled this to be achieved.



## **APPENDICES**

The Appendices are organised as follows:

1. Questionnaire Survey.
2. Letter to Confirm Participation in Case Studies.
3. Interview Guidance Sheets
4. Description of Database Variables

**APPENDIX 1: COPY OF ORIGINAL QUESTIONNAIRE.**



**NENE COLLEGE NORTHAMPTON**

**EAST MIDLANDS SME SURVEY**

*June 1997*

[Contact Name].

[Contact Position]

[Address Line 1]

[Address Line 2]

[Post Code]

Dear [Contact Name],

The following questionnaire is part of an ongoing research project concerning the environment in which Small- to Medium-sized Enterprises (SMEs) in the East Midlands operate. Its focus is on SME behaviour in both domestic and external markets.

Approximately 300 SMEs in the East Midlands have been selected to take part. It is the aim of the research to identify the salient characteristics of the companies in the region. The research intends to identify the process by which SMEs in the region grow and the important elements that determine the actions of their management.

I fully appreciate that this is a busy time of year, however, the questionnaire should only take about ten minutes of your time. Your assistance in completing the questionnaire would be greatly appreciated. All responses will be treated in strictest confidence.

Yours Sincerely,

Jonathan G. Lashley.



9. How many directors are there in the company? [ ]

10. How many of the directors speak an additional language to English? [ ]

Language: [ ] Ability: Basic/Intermediate/Advanced

Language: [ ] Ability: Basic/Intermediate/Advanced

Language: [ ] Ability: Basic/Intermediate/Advanced

Language: [ ] Ability: Basic/Intermediate/Advanced

11. Have any of the directors worked abroad or for a foreign company? If so, which country?

YES [ ] NO [ ] Location [ ]

Location [ ]

Location [ ]

**Product Information.**

12. How many different *product groups* do you sell? [ ]  
(Hats/ Tires/ Gloves would be considered a *Product Group*)

13. What would you say your MAIN *product group* is?  
.....

14. Overall, how many different *products* do you sell? [ ]  
(Different types of Hats/ Tires/ Gloves)

15. Where do you consider to be the principal market (and market share) for your main product group?

Regional [ ] National [ ] International [ ]

Market Share [ %]

**Competitors.**

16. Where are your major competitors located?

Regional [ ] National [ ]  
EUROPE [ ] USA [ ] Asia [ ]

Other (Please specify) .....

17. How competitive do you consider the industry to be?

	highly	moderately	uncompetitive
regionally	[ ]	[ ]	[ ]
nationally	[ ]	[ ]	[ ]
internationally	[ ]	[ ]	[ ]

18. Would you say your company operates in a niche market? YES [ ]  
NO [ ]

**Information on Machinery.**

19. (a) Does your company use hi-tech computer operated machinery?  
YES [ ] NO [ ]

(b) Could you give an approximate age for the company's machinery? [ ]

20. Has your machinery been customised in anyway to suit your needs?  
YES [ ] NO [ ]

If so, by whom? In-house [ ]  
Supplier [ ]  
Subcontractor [ ]

**Supplier/ Customer Relationships.**

21. Where are your main suppliers located?

Regional [ ] National [ ]  
EUROPE [ ] USA [ ] Asia [ ]

Other (Please specify) .....

22. Do they supply you with:

Partially manufactured goods [ ] Raw materials [ ]  
Components [ ] Other .....

23. Are you subcontractor to: companies based in the UK? YES [ ] NO [ ]  
companies based abroad? YES [ ] NO [ ]

24. Where are your main customers located?

Regional [ ] National [ ]  
EUROPE [ ] USA [ ] Asia [ ]

Other (Please specify) .....



**Export Market Behaviour.**

25. Do you export? YES [ ] NO [ ]

If no, go to question 32.

26. Who is in charge of exporting for the company? (Name/Title)

.....

27. For how long have you been exporting? [ ]

28. To which countries do you mainly export?

.....  
.....  
.....

29. How was your move into export markets prompted?

Ad hoc order [ ] Domestic Client Moving Abroad [ ]

Subcontracting to an exporter [ ] Pro-Active Market Search [ ]

Recommendation by Clients [ ] Size of Market [ ]

Unserved Market [ ] Prior Contact with foreign firm [ ]

Other .....

31. Has the reduction of trade barriers with Europe influenced your decision to export?

YES [ ] NO [ ]

If so, how?

.....

**Import Market Behaviour.**

32. Do you import part of your resources? YES [ ] NO [ ]  
If no, go to question 36.

33. For how many years have you been importing? [ ]

34. From which countries do you currently mainly import?  
.....  
.....  
.....

35. Has the reduction of trade barriers with Europe influenced your decision to import?  
YES [ ] NO [ ]

36. Have you received any grants or state aid? YES [ ] NO [ ]  
Please give details  
.....  
.....

Name of Person Completing Questionnaire: .....

Position: .....

In the interest of avoiding generalisations to what are essentially unique enterprises, would you be interested in a follow-up interview to enable the researcher to fully understand your company's position?

YES [    ]                      NO [    ]

Thank you very much for taking the time to complete this questionnaire. Your help is gratefully acknowledged.

Please return the completed questionnaire in the pre-paid envelope provided.

If further information is required, or you have any queries, please contact:

Jonathan G. Lashley,  
Nene Centre for Research,  
Nene College of Higher Education,  
Boughton Green Road,  
Northampton NN2 7AH.  
Telephone: 01604 735500 ext.2511.  
Fax: 01604 791114  
email: jonathan.lashley@nene.ac.uk

**APPENDIX 2: LETTER TO CONFIRM PARTICIPATION CONFIRM  
PARTICIPATION IN CASE STUDIES**

Nene Centre for Research,  
Nene- University College, Northampton,  
Boughton Green Road,  
Northampton,  
NN2 7AH.  
[dd-mm-yyyy]

[*Key Informant*],

[*Position*],

[*Company Name*],

[*Address Line 1*],

[*Address Line 2*]

Dear [*key informant*],

Re: Exporting and the East Midlands SME.

In the summer of 1997 you completed a questionnaire survey concerning your company's operations and characteristics. The survey was entitled *East Midlands SME Survey*. We thank you for your reply and its contribution to the continuing research. We have now completed the first phase of the research and are now seeking to commence on the second phase of the research that encompasses a series of in-depth case studies of SMEs in the region.

In the original questionnaire you exhibited a willingness to participate in any further in-depth research. I am writing to confirm this willingness and hope that the resulting research can be of benefit to us both. If this is acceptable to you, on receipt of your willingness to participate, contact will be made to arrange an initial meeting.

The details of the case study process are as follows. Each individual case will consist of a series of interviews with key personnel involved in the exporting process of the firm. In addition to this, documentary evidence will also be requested. This is in order to confirm the validity of the research by the use of several sources of evidence. It is envisaged that the entire data-gathering process will consist of a couple of hours a day, for a period of less than a week. This is in order that the researchers may compile a complete image of your company. Any details will be held in the strictest confidence, and any ensuing analysis would be returned to you for comment. We believe this will work as a further check on the research to maintain its validity.

I look forward to hearing from you in the near future.

Yours Sincerely,

Jonathan G. Lashley.

**APPENDIX 3: INTERVIEW GUIDANCE SHEETS**

**UNIVERSITY COLLEGE NORTHAMPTON**  
**EAST MIDLANDS SME SURVEY**  
**CASE STUDY INTERVIEWS**



## **DOCUMENTATION REQUESTED**

**Personnel:** Job descriptions of relevant personnel and curriculum vitae.

**Divisional:** As much detail as possible on the company will be needed. This will include accounts data encompassing sales figures, export figures, value added and profits. Any information on employees and skills base, and any customer (foreign) information that can be released.

**Company:** Includes company reports, any explicit company/ business policies, export/ sales protocols, details of exhibitions attended, details of the exporting process (how the process operates and the relationship you have with customers), supplier details, and any information on the company's management structure.

<b>Personal Details</b>	
Company Name	
Date & Time	
Name of Interviewee	
What is your occupation in the company?	
What is your job description/ duties?	
What qualifications do you bring to the job?	

Do you speak another language? Is this helpful in foreign operations?	
For how many years have you been with the company?	
Do you have any experience of international markets from a previous job?	
What was your position when you started work at the company?	
How has the company changed since you started?	
How do you see your position changing in the future?	

<b>Firm Details</b>	
What would you say are the company's main competitive assets?  (Cost/ quality/ service/ other)	
What would you consider the main internal constraints on the company?  SIZE/ LACK OF SKILLS-BASE/ MAUFACTURING SPACE/ TECHNOLOGY/ OTHER	

<p>What are the benefits of the company's current location?</p> <p>TRANSPORT/ SKILLS-BASE/ PROXIMITY TO MARKETS/ OTHER</p>	
<p>Do all operations take place on one site (manufacture and R&amp;D)?</p>	
<p>Are there any plans to expand or change location in the near future?</p>	

<p>Do you operate under any explicit business policies?</p>	
<p>How many exhibitions does the company take part in every year? Home and abroad?</p>	

What are the details of your transport operations, domestic and abroad?	
What are the company's main plans for the future?	

What would you say is the secret of the firm's success?



<b>External Environment/ Relationships &amp; Networks</b>	
What external variables influence your planning most: exchange rates/ interest rates/ transport costs/ taxes?	
Where is the company's main market?	

Where is the company's main supply source?	
Has the company received any external support?  CHAMBER/ GOVERNMENT/ LOCAL AUTHORITY	
Where and who would you consider the OTHER leading	

manufacturers in your sector to be?	
Do these competitors affect the way you plan your operations?	

<b>The Exporting Process</b>	
For how long has the company been exporting?	
What is your main export product?	
How much are you exporting at the moment, in £ terms?	
What is the company's main export market? Currently and previously.	

Is there an explicit company strategy for exporting?	
How does exporting actually operate? AGENTS/ DIRECT?	
Do you consider exporting more profitable than domestic sales?	
How committed are you and the company to the exporting aspect of operations?	

<p>What sort of planning occurs before entering a new market?</p>	
<p>Initial exporting: AD HOC ORDER/ RECOMMENDATION BY CLIENTS/ DOMESTIC CLIENT MOVING ABROAD/ PROACTIVE SEARCH, OTHER ..... which would you consider most important?</p> <p>Could you describe what actually happened in detail?</p> <p>(Did your other customers affect your move into exporting?)</p> <p>(Did your suppliers affect your move into exporting?)</p>	



Have other options apart from exporting been considered, such as manufacturing abroad?	
Do you consider the product's reputation as very important in your export ventures?	
Do you employ any sort of pricing policy to foreign markets?	



What are the company's plans for the future concerning exporting and international activity?	
What do you think is needed to succeed abroad?	

**APPENDIX 4: DESCRIPTION OF VARIABLES USED FROM SECONDARY  
DATABASE**

**Gross Profit:** Turnover less cost of goods sold.

**Number of Employees:** Average number of employees during the accounting year including full and part-time workers and employees from consolidated subsidiaries.

**Number of Directors:** Does not include the company secretary.

**Turnover:** Value of all services rendered and goods or equipment sold in the UK and overseas. Excludes VAT, intra-group turnover (where consolidated) and related company turnover.

**Value Added:** The sum of employee's remuneration, director's remuneration, and depreciation to the operating profit. Value added is the fraction of market value of production that has been added by a company's process of production, administration, selling and distribution. It is the difference between turnover and the cost of bought-in materials and sources.

**Capital Employed:** The sum of shareholder's funds, long-term loans, and other long-term liabilities.

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