HOW SMALL AND MEDIUM SIZED ENTERPRISES

LEARN TO COMPETE EFFECTIVELY ON

INTERNATIONAL MARKETS

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HOW SMALL AND MEDIUM SIZED ENTERPRISES LEARN TO COMPETE EFFECTIVELY ON INTERNATIONAL MARKETS

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Abstract

This thesis seeks to develop insights into the nature of small and medium sized enterprises (SMEs) that are effective in competing internationally, over the longer term. It therefore aims to provide a better understanding of the behaviour that engenders this capability. Its contributory value lies in the development of the new perspectives which emerged from inductive theory development grounded in longitudinal data collected between 1996-1999.

Traditionally explanations for the success of SMEs in export markets, it is suggested, have been sought in the marketing mix paradigm rooted in exchange theory. This thesis draws from a range of literature in seeking an understanding of the behaviours observed. In developing a substantive theory to explain the dynamic nature of firms that sustain their competitive effectiveness on international markets this thesis then seeks explanations from the organisational learning paradigm.

This study follows the tradition of the naturalistic paradigm and as such the research was a phenomenological study of an exploratory and qualitative nature. The naturalistic paradigm recognises the importance of the subjective experiences of individuals and groups. In the verstehen tradition this study stresses the importance of the informant as the primary source of information. The aim of the inquiry was to develop an ideographic body of knowledge, the emphasis being on explanation and understanding rather than the identification of general and universal laws.

The epistemological stance taken required an inductive approach to theory building. Examining the firms longitudinally was the means by which the author was able to take an holistic view of the international activities of the firms studied and focus on the change processes and challenges faced in the study period.

The central proposition of this thesis is that the firms that compete effectively on international markets exhibit a positive marketing orientation, and have a strong core purpose on which is generated a clear internationally based strategic direction. It is further proposed that over a period of time, through an iterative process of strategy development, firms build a sustainable competitive advantage in their international markets and develop the ability to maintain this advantage, even when faced with hostile challenges in their international markets. Firms, it is suggested through their relationships, build a virtual structure to their international markets, which provide the means through which a knowledge of their markets is acquired, and an input is made to the strategy development process by external partners. However, it is through the dynamic processes of organisational learning that SMEs develop these capabilities and so enhance their ability to sustain a competitive advantage over a period of time.

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TABLE OF CONTENT

Chapter 3: Research Methods

Chapter 4: Identification of Research Themes

Chapter 7: The Role of Relationships in Building Competitive Success on International Markets

Chapter 8: How SMEs Learn to Compete Effectively on International Markets

Tables

Figures

Chapter 1: An Introduction to the Thesis

Introduction

This thesis seeks to develop insights into the nature of small and medium sized enterprises (SMEs) that are effective in competing internationally over the longer term and so gain a better understanding of the behaviour that engenders this capability.

The chapters of this thesis explore the processes through which the SMEs studied built a sustainable competitive advantage in their international markets and developed the ability to maintain this, even when faced with hostile challenges in their international markets. How the firms used the relationships they established to structure and organise their activities on international markets and the critical role these relationships played, in both international strategy development and implementation is also studied.

There has been a plethora of research examining the exporting activities of SMEs in the last two decades. In contrast, there has been little theory development of SME international marketing. This thesis examines how the author aimed to make a contribution to that theory development through a three year longitudinal study of the behaviour of SMEs that were viewed as competing effectively on international markets. The central proposition of this thesis is that it is through the dynamic process of organisational learning that SMEs build the capability to compete internationally and develop their ability to effectively sustain a competitive advantage on international markets over a period of time.

The aim in this first chapter is to establish the contributory value of this thesis and to reflect on the paradigimatic stance taken by the author. The research methods used and the content of the chapters in this thesis will then be briefly outlined. The reasons for the author's interest in the topic are explained and the rationale for the choice of the research subject discussed. Finally, the reader is introduced to the political and economic context in which the research for this thesis took place.

The Aims of the Thesis

The aims of this thesis are threefold:

1. The research underpinning this study aimed to move the inquiry of the export marketing activities of SMEs from within the *positivist* paradigm, the dominant paradigm in which research in this field has traditionally taken place, to the *naturalistic* paradigm in an attempt to use an inductive, methodological approach and to generate a more *holistic* understanding of the nature of firms competing effectively internationally.

2. The author endeavoured to achieve a greater depth of understanding of the underlying processes inherent in SMEs competing internationally by studying the firms longitudinally from 1996 to 1999.

3. The aim was to take a fresh perspective in examining the behaviour of SMEs competing internationally by drawing on a range of literature to seek explanations as to the behaviours observed. Previously, explanations for the success of SMEs in export markets have been sought traditionally in the marketing mix paradigm rooted in exchange theory (Morgan & Hunt, 1994). The specific objective was to develop a substantive theory to explain the nature of firms that competed effectively on international markets.

The contributory value of this thesis is based on achievement of these three aims.

In the following sections of this chapter how each of these aims and objectives was achieved will be explained and the context in which this study took place described.

Paradigmatic Stance

This study follows in the tradition of the naturalistic paradigm, and as such the research study was of an exploratory and qualitative nature.

It is suggested that the epistemological stance taken required an inductive approach to theory building. Such theories are perceived as being grounded in the data (Glaser &

Strauss, 1962; Corbin & Strauss, 1990; Glaser, 1992). Thus theory development was based on an inductive process of discovery of the processes and behaviours observed.

Burrell & Morgan (1979) argued that it is convenient to conceptualise social science research in terms of four sets of assumptions (p. 2-3):

- The *ontological* assumptions; whether reality is viewed as objective and therefore external to an individual; or subjective, a product of an individual's mind.
- The *epistemological* assumptions; the grounds on which knowledge is founded.
- The relationship between *human nature* and its environment; the extent to which the research assumes a deterministic view or one of voluntarism.
- The *methodological* assumptions; the three previous assumptions will have implications as to how knowledge is obtained and how issues are investigated.

If a researcher subscribes to the view that the world is a hard objective reality, there is an assumption that the world exists independently of an individual's appreciation of it. This means the researcher will, most likely, follow the tradition of the positivist paradigm and be concerned primarily with the search for universal laws which explain and govern the reality being observed. The object of analysis will be viewed as responding in a mechanistic fashion to an external world viewed as a *grand machine* (Lincoln, 1985) where the *push-pull action of single action concept* (p.34) determines specified outcomes. Traditionally, therefore, positivist inquiry sought to isolate variables and to manipulate them in a controlled environment (Gill & Johnson, 1997).

The methodological nature of such research is, therefore, more likely to focus on the identification and definition of elements, their relationships and observing their regularity using quantitative research techniques. Argyris & Schoen (1996) pointed out that this *assumes a constancy of meaning* (p.38) of these elements across not only researchers but also the objects being studied.

It will be argued in Chapter 2 that this is very much the dominant paradigm from which previous research in export marketing has been built. The research studies reviewed in Chapter 2 are critiqued for being primarily concerned with uni-variable analysis and preoccupied with isolating the key variables that determine success. Even the language by which the body of literature is commonly known (determinants of export performance) assumes a relationship by which SMEs will respond in a deterministic manner with their external environment. Thus in Kuhn's (1970) terminology, the *normal* paradigm of previous research in the subject made the ontological assumption of objective reality and followed the positivist paradigm.

This earlier research proved invaluable to the author in developing the depth of pre-understanding (Gummesson, 2000) necessary to commence the research for this study. The desire to find a new approach was more a recognition, based on the pre-experience of the author, that the world had moved on. To better understand the nature of firms competing on international markets, it was felt the research for this thesis had to start from a recognition that the environment in which the firms operated was complex and diverse, and the nature of a firm's behaviour both idiosyncratic and dynamic and not necessarily predictable. Such a perception is reflected in the slow but emerging trend in recent literature in the field of SME marketing calling for a move away from the strong predominance of a positivist approach to alternative methodologies reflecting a more phemenological approach (Hill & McGowan, 1999; Carson & Coviello, 1995).

Lincoln (1985), referring to the previous work of Schwartz & Ogilvy (1979), argued that the world is now in an era of *post-positivism,* and that this paradigm shift has led to the emergence of the *naturalistic paradigm.* In this paradigm, the world is viewed as pluralistic, interactive, and rather than the grand machine as expressed above, it is seen as *holographic* (p.34). Schwartz & Ogilvy (1979) articulate this notion as being based on the view that "everything is interconnected like a vast network of interference patterns each part containing information about the whole " (p.14).

The implication is that the naturalistic paradigm views the world as an *indeterminate universe* (Lincoln, 1985, p.35) that is neither predictable, linear nor consisting of direct cause-and-effect relationships. The term *morphogenesis* (p.35) is used to characterise the new form in which the elements, whilst identifiable individually, do not necessarily generate an understanding of the new form as a whole when assembled.

Inquiry in the naturalistic paradigm is, therefore, based on a number of axioms that contrast sharply with the previous discussion of inquiry in the positivist tradition (Guba, 1985). Perhaps most significantly, the ontological assumption is made that an understanding of reality is relative to how the individual or group, creates and interprets the world. The naturalistic paradigm recognises the importance of the subjective experiences of the respondent. Thus, the assumption is made that any construction is the respondent's attempt to make sense of reality, and that this sense will be dependent on the information available - as this changes, so can the construction change. It therefore stresses the importance of the informant as the primary source of information. This inherently suggests that the posture of *pure objectivity* is an illusion and that the posture of *perspective* (Schwartz & Ogilvy, 1979, p.16) may be more appropriate in that it accepts that any one phenomenon can be viewed from a multiplicity of perspectives.

It is suggested, within this paradigm, that human behaviour and organisational systems are often better studied holistically, allowing all factors to be considered if a fuller understanding is to be gained. The aim of the inquiry, for this thesis was to develop insights into the nature of SMEs competing effectively on international markets. Therefore, the objective was to develop an *ideographic body of knowledge* (Guba, 1985, p.85), the emphasis being on explanation and understanding rather than the identification of general and universal laws.

It was decided that, to achieve the stated aims, an inquiry approach that followed the traditions of the naturalistic paradigm was more appropriate than one following the traditions of the positivist paradigm. The epistemological stance taken required an inductive methodological approach enabling an 'holistic' exploratory enquiry. It is suggested by the author that this paradigm offered the greater possibility for a more complete understanding of the subject for this thesis, and the construction of a more substantive theory.

The Research Journey

The research study on which this thesis is based took place over a three year period, 1996-1999. The research methods used are fully debated in Chapter 3. In this section, the author is concerned only with giving the reader a brief insight into the nature of the research study. There were, essentially, two key stages to the research journey: firstly, the development of an understanding of the management processes and marketing practices in which SMEs that effectively competed on international markets engaged; secondly, an exploration of how SMEs built the international competitive capabilities of their firms.

The objective of the first stage of the research was, principally, to inform the research design and determine the boundaries of the research study. Data was collected from a number of different sources: previous literature, group discussions and in-depth semi-structured interviews amongst a sample of 25 SMEs, who were viewed as competing effectively on international markets.

The objective was to generate an understanding of the management processes and marketing practices in which SMEs competing effectively on international markets engaged. The subsequent analysis of the data, generated a number of valuable insights into the activities and opinions of SMEs that proved significant in planning and developing the longitudinal research. For the second stage of the research, six firms from the first stage interviews were selected to study longitudinally. The objective of studying the firms longitudinally was to explore how these firms built their capability to compete effectively over a period of time, and to seek explanations as to the nature of firms that sustained competitive effectiveness on international markets.

An important aspect of the contributory value of this thesis is the dynamic nature of the theory development made possible by studying the subject over a three-year period. Studying the firms longitudinally was a central component in the research strategy of this thesis, allowing the researcher to build an empathy with the research subject through the personal contact built up over a period of time, and from which a rich source of material was drawn.

From the Marketing Mix Paradigm to the Organisational Learning Paradigm

In Chapter 2, in reviewing previous research, it will be suggested that explanations for the success of SMEs on international markets have been traditionally sought in the marketing mix paradigm rooted in exchange theory (Morgan & Hunt, 1994). This meant research focussed on explaining marketing transactions and exchanges rather than long term competitiveness. Siu & Kirby (1998) suggested that the literature on marketing in SMEs generally had primarily viewed marketing as being treated as a tactical issue and so had confined explanations at this functional level. The validity of this paradigm when examining the marketing in SMEs has been challenged in a number of research studies (Brooksbank et al, 1992; Carson, 1995; O'Donnell & Cummins, 1999). Some of the criticism is based on the outcome orientation of the exchange paradigm, in which it is argued that the concern for quality, customer retention and customer service was not adequately incorporated. Styles & Ambler (1994) suggested this applied equally to research in export marketing. They criticised previous studies for being too focussed on the measurement of short-term outputs of export selling activities and signalled the need to conceptualise export marketing from a wider perspective. This thesis draws from a range of literature in seeking explanations for the behaviours observed of firms competing internationally, but then places the thesis in the organisational learning paradigm in its attempt to develop a substantive theory to explain the nature of firms that compete effectively on international markets.

The following chapters of this thesis detail at some length the stages of the investigative process and the intellectual journey taken by the author in travelling to this outcome.

In Chapter 2, the author examines the areas of literature in which explanations as to the performance of SMEs on export markets have been sought traditionally. The area of literature concerned with the conceptualisation and measurement of export performance and the literature examining the key determinants of export performance are fully explored.

The conceptualisation and measurement of export performance of SMEs has been the cause of great debate in export marketing research literature. One of the major problems being the absence of agreement amongst researchers as to a consistent approach to measuring export performance (Cavusgil & Zou, 1994). Matthyssens & Pauwels (1996) argued a consistent and valid approach with respect to export performance measurement was of the utmost importance to the study of the export marketing behaviour of SMEs. In many of the research studies reviewed in Chapter 2, a variety of approaches are used, which is perhaps why Zou, Taylor & Osland (1998) saw the theory building in the field of export marketing performance as an essential requirement of future research.

The studies reviewed in Chapter 2 link export performance of SMEs to three broad groups of variables: firm related variables (eg size of firm, product characteristics), marketing strategy related variables (eg market research, promotion and distribution), and firm competencies. One of the main conclusions by the author, consistent with other reviews of this body of literature (Aaby & Slater, 1989; Styles & Ambler, 1994; Leonidou, 1995; & Fraering, 1996), is that there is no such thing as a particular overriding set of characteristics or factors which influence export performance, and that it is important that any assessment of the export performance of SMEs incorporated a multi-dimensionality of factors.

Previous research is, therefore, criticised by the author for failing to take into account the complexity of factors which impact on a firm's performance. It is suggested in Chapter 2 there has been a greater concern with the identification of individual variables that determine success and the observation of their regularity than the development of a more complete understanding. By focusing examination on the determinants of export performance of SMEs, theory development as to the nature of these firms in the wider strategic context of international competitiveness has been under represented in the literature.

However, the prior research was not, by any means, dismissed by the author and proved valuable, firstly, in developing the pre-understanding needed to select the sample of firms competing effectively on international markets, and secondly in developing an understanding of the theoretical context of the findings of the initial interviews carried out as part of the first stage of the research strategy.

The findings of the initial interviews of 25 SMEs are fully explored in Chapter 4 of this thesis. The aim of these first interviews was not to test whether one practice or process was more or less important than another, but to collect non-judgemental data on the relevant processes and practices that could be undertaken by the firm and to explore the role of these activities in generating a competitive advantage on international markets. Semi-structured interviews were used to gather information relating to the attitudes and behaviour and opinions of respondents and to assess their opinions on a number of issues.

Whilst the discussion was wide ranging, the author distilled underlying themes from the analysis to be pursued longitudinally.

Firstly, the role of strategy development. The firms in the study were seen to treat potential business on international markets as strategic as well as economic opportunities and successful firms had invariably built a distinctive competitive position across a range of markets. From these interviews, however, it was not possible to develop an understanding of how these competitive positions were achieved, nor an insight into the processes through which firms arrived at these positions. It was, therefore, concluded that both the role of strategy development in achieving international competitiveness and the process by which international marketing strategies were developed would be an interesting area to explore longitudinally.

Secondly, the role of relationships in building competitive success on international markets. Evidence from the analysis suggested that building relationships was an important component in the strategic thinking of the firms. The firms showed evidence of quite sophisticated approaches to developing relationship strategies in their efforts to understand the needs of their international customers and to secure a longer term competitive base. The role of relationships in achieving a competitive advantage on international markets was seen to be an important theme to be pursued longitudinally.

Finally, there were important questions with regard to the dynamic processes by which firms maintained competitive success on international markets over a period of time. The firms studied showed an ability to adapt their strategies appropriately in an international marketing environment characterised by uncertainty and ambiguity. The process by which firms maintained their competitive capabilities over the longer term was the third research theme pursued longitudinally.

The second half of the thesis takes the reader through the findings and analysis of the six firms studied longitudinally. In Chapter 5, the reader is introduced to each of the firms studied and the key challenges they faced during the time of the study. The aim of Chapter 5 is to set the scene for the analysis and evaluation of the findings detailed in the remaining chapters.

In Chapter 6, the author explores the role of international strategy development in explaining the nature of firms that competed effectively on international markets. In this chapter it is suggested that the firms studied showed a positive marketing orientation with strong core values which generated a clear strategic direction. Furthermore, over a period of time the firms studied built a sustainable competitive advantage in their international markets and maintained this even when faced with hostile challenges. This chapter partially explains the basis for the firms' success on international markets and the processes they went through in developing this capability. It does not explain, however, how they organised and structured activities in the international markets, nor by what dynamics those firms were able to maintain their success over time, hence the need to investigate these issues in later chapters.

In Chapter 7, the author draws from the field of relationship marketing to explain how the firms in the study organised and structured international activities. It is suggested that the network of relationships formed by firms competing effectively on international markets played a critical role in developing their competitive advantage. The firms sought, through their relationships, to acquire knowledge from their markets and to communicate with their markets. This played an important role in both forming and informing their international strategies. The partnerships developed also played a critical role in the implementation of the strategies. It was through the partnerships formed that the firms added value to their product offering and were able to service fully the needs of customers across their international markets.

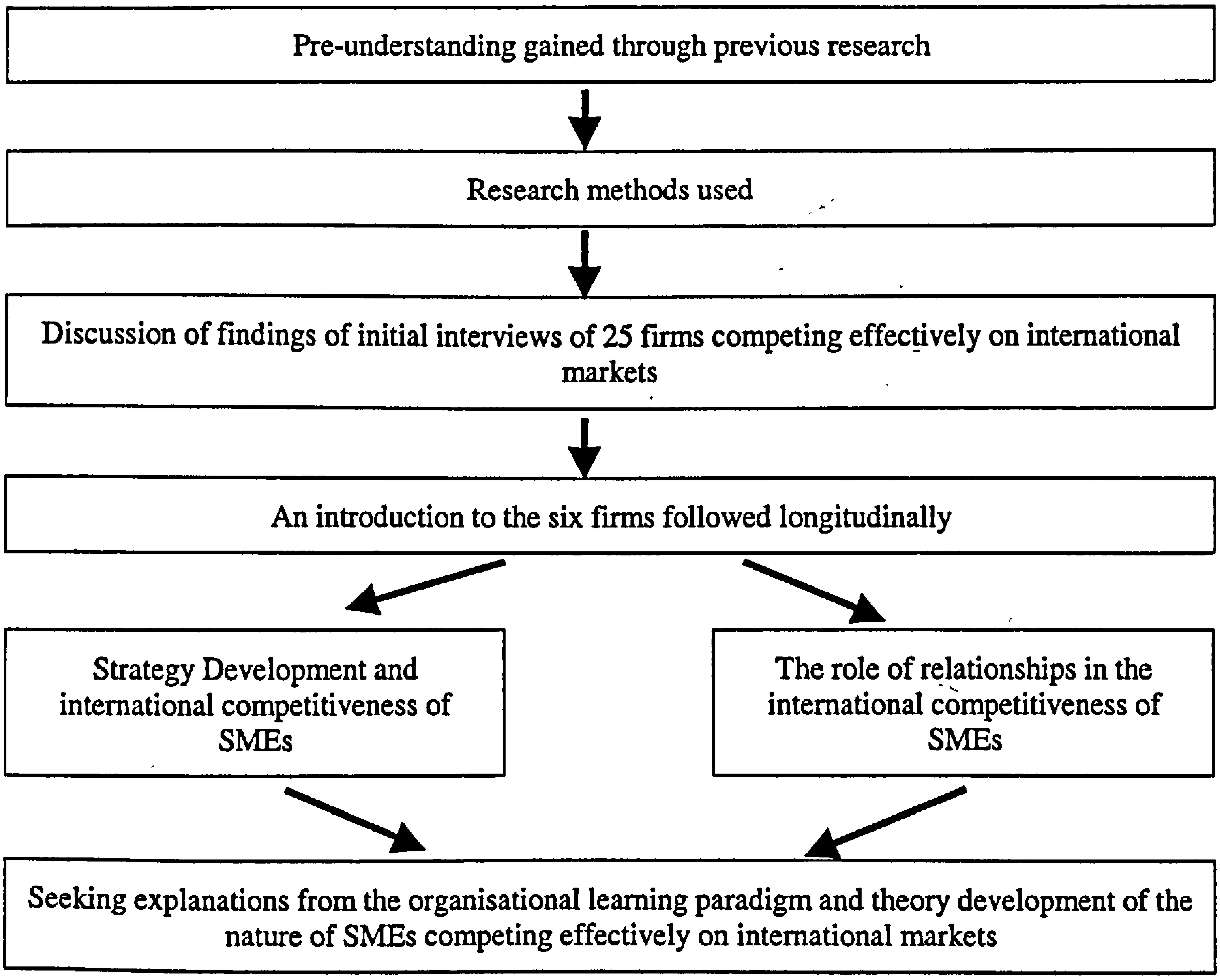
Whilst the role of relationships was highly significant, it is argued in Chapter 7 that they offered only a partial explanation, in that the relational paradigm does not fully explain the enduring nature of the firms ability to compete internationally over a sustained period.

In Chapter 8 it is suggested by the author that, in order to develop holistic theory of the nature of SMEs that compete successfully on international markets, it is necessary to draw upon the literature of organisational learning. It is through the dynamic process of organisational learning that it is possible to fully understand the nature of the firms in the sample studied and through which the findings of the study can be synthesised and explained. It is also suggested that it is through the process of organisational learning that both the effectiveness of a firm's international strategy and the management of the network of relationships can be fully understood.

Chapter 8 pulls together the themes of the research study, draws conclusions and seeks to make a theoretical contribution to the understanding of the nature of firms that effectively compete on international markets. It then goes on to assess the implications of the findings for the policy debate as to how SMEs competing internationally should be supported, and examines the implications for further research.

In summary, therefore, the structure of this thesis can be depicted as follows:

Figure 1: The Thesis Structure



However, as previously stated, the contribution of this thesis is within the specific context in which it takes place. This context is explored in the following sections.

The Political and Economic Context of the Study

This thesis refers entirely to small and medium sized enterprises. The Department of Trade and Industry defines a small firm as employing between 0 and 49 employees and a medium firm as employing between 50 and 249 employees (DTI, SME statistics for the UK, 1999). This is the definition used in this thesis to define a SME. Thus the findings of this thesis relate solely to firms of less than 250 employees.

According to DTI estimates there were 3,657,885 active businesses in the UK. In 1998 Small or medium sized businesses accounted for 56% of employment and 52% of GDP (DTI Small and Medium Sized Enterprise (SME) Statistics for the UK, 1999). How many small and mediums sized firms were involved in export activity was difficult to estimate as, surprisingly, there was no official data. The British Chamber of Commerce Small Firm Survey (1997) suggested that 25% of small and medium sized firms export occasionally and 38% frequently, but only 21% export over half of their turnover. Oldfield (1997) researched the 100 fastest growing firms in the UK and concluded that 50% of these firms did not show evidence of any export activity. He also found that less than 15% of the firms achieved more that 50% of their turnover from exports. Atherton & Sear (1997) in a three-year study investigating the regional competitiveness in the North-Eastern region of the UK estimated that the percentage of SMEs that were internationally active in this region was possibly only 2 to 3%.

Interest in developing export markets by SMEs does not appear to be as strong as in other European countries. According to a survey by Grant Thornton (1997), the UK is 13th in terms of the proportion of SMEs that export. Only Swedish and Portuguese SMEs were less likely to export. In the UK, exports, it seems, are dominated by large firms. In 1998 the top 100 exporters generated £74 billion of exports (Financial Times, October 1999).

The role and contribution of small and medium sized firms in the exports of an economy has however received increasing attention in academic literature (Graham, 1999; Zou, Taylor & Osland, 1998). The interest reflected both a national government concern with generating greater exports and the increasing focus on competitiveness on international markets by SMEs themselves. Government policies, it seems, are geared to improving performance of SMEs on international markets, as a means by which they can generate growth in their economies (Zou, Taylor & Osland, 1998). In the USA, a trade deficit with Japan of $40 billion (1997) signalled the resurgence of political interest. In Australia, where only 11% of small businesses export (Graham, 1999), export markets were perceived as offering unlimited scope for SMEs to grow.

Austrade, the Australian government trade department responsible for international trade identified the development of exporting by small businesses as a priority area for support in encouraging growth in Australian SMEs.

This was also the case in the UK. In the 1995 *Competitiveness White Paper*, the UK government set a target of achieving 30,000 new exporters in the UK by the year 2000. Despite the best efforts of the author, it has not been possible to ascertain whether this objective was achieved, or whether its success or otherwise was evaluated. Whether the target was achieved or not, it did serve the purpose at the time of focusing attention on the need for public policy initiatives to enhance the competitiveness of SMEs on international markets. This was reaffirmed at the 1997 CBI conference, when the incoming Prime Minister likewise prioritised the need for British firms to improve their capabilities to compete effectively internationally and benchmark themselves against the best in the world.

In June 1998, a comprehensive review of the arrangements for the support and promotion of exports was instigated by the Foreign Secretary and the Board of Trade. The review, conducted by a team of Department of Trade & Industry officials and secondees from industry, interviewed over 400 people from industry and received over 170 written submissions. *The Review of Export Promotion,* published in February 1999, made wide-ranging recommendations. Central to the recommendations was that any future system of government support, "had as its prime objective assisting companies in the development of their ability to market their goods and services internationally, (p.5, para 6)" *(and that there should be)* "a strong focus on the development of the capabilities of small and medium sized enterprises" (p.9, para 26).

The review did not explain in what abilities companies required assistance, nor what capabilities needed to be developed. However, the recognition of the need to refocus the support provision to the development of in-company capabilities heralded a change in the perspective taken by government agencies in how the exporting activity of SMEs should be best encouraged. Previously, as the 1995 Competitiveness White Paper articulated, priority had been placed on generating a number of new exporters and the offering of services focussed on assisting firms in the export transaction process rather than in building long-term competitiveness (The Review of Export Promotion).

Crick and Czinkota (1995) in a comparative study of government support provision in the UK and the USA found that, traditionally, in both countries the assistance offered was perceived to be of little relevance by SME exporters. These authors studied the factors associated with the effective use of export assistance and found no significant relationship between the use of government support services and export performance. Atherton & Sear (1997) confirmed this in their study in the north-east of England and commented that government assistance was not perceived as being effective in encouraging firms to begin internationalising their activities. This perhaps explains why as few as three to five percent of businesses in the region used the government-funded support network. Carrier (1997), in a study of the training and development needs of SMEs with export potential, suggested there was a mismatch between SME expectations and the actual delivery of services, as well as weaknesses in the appropriateness and accessibility of the provision of services.

In a study in the exporting activities of 224 SMEs in the South Yorkshire region, (Doole, Stokell & Lowe, 1996) it was suggested that the shortcomings of the support provision centred on three issues. Firstly, government support networks in their design of support services had a tendency to focus on helping less experienced exporters complete an initial export transaction rather than developing a long-term plan of support to help the firm develop internationally. Secondly, that the providers of export support services focussed on the selling of available services rather than meeting the particular needs of the SME. Thirdly, there seemed to be a lack of understanding of the capabilities SMEs needed within the firm to compete effectively on international markets.

An objective of the Doole, Stokell & Lowe (1996) study was to inform the policy debate on support for SMEs within the South Yorkshire region. The sample frame of 758 SME exporters with employees of less than 250 employees was drawn from the databases of local Training and Enterprise Councils and Business Links. A total of 224 useable questionnaires were returned which consisted of firms from a range of local industries in the size range of 10-250 employees. It was the findings of this study that led the author to the belief that, if the government assisted support agencies were to develop public policy initiatives and design support services that positively encouraged export activity in the region, there was a need to better understand the export marketing activities practised by SMEs that competed effectively on international markets. From this understanding of good practice the implications for public policy could then be drawn.

A conclusion of the study was that a clearer understanding of the nature of firms that effectively competed on international markets would positively inform the policy debate in the South Yorkshire region. It was from discussions arising out of these issues that the ideas leading to the research proposal for this thesis were generated. Support provision for SMEs developing internationally is not the subject of this thesis. However, it is the hope of the author that a contributory value of this thesis is that it challenges assumptions as to how successful SMEs compete on international markets, and so informs the debate as to how best to develop a firm's potential to compete effectively on international markets. The need to challenge the traditional approaches to supporting SMEs developing internationally has been signalled by other authors. Sparrow (1999) reflecting on the SME support needs in the UK observed the movement "towards a higher quality, more client-oriented approach in business support" (p.121).

He suggested such a movement raised challenges for support providers and signalled the need for a move away from the emphasis on quantitative studies to the use of more sophisticated qualitative research studies to inform business support initiatives.

The Regional Context of the Study

The locale of this thesis is in the specific context of the South Yorkshire region of the UK.

This region has a long tradition of heavy industry, including steel making, metal working and heavy engineering. However, in the period 1981-1995, South Yorkshire suffered a severe economic decline. Employment in the manufacturing and engineering sector dropped by nearly 50% from its 1979 levels of 89,688 to 45,908 in 1995 (Census of Employment 1996). GDP per head slumped from being 94% of the European Union average to 73% in 1995 (Eurostat, 1998).

Furthermore, due to the traditional reliance upon large employers in heavy industry, there was no strong entrepreneurial culture and no strong political will to encourage SMEs to compete internationally (Price Waterhouse Cooper, 1998). Consistent with the national government agenda discussed previously, there was a growing consensus across support agencies locally, that encouraging firms to expand internationally was one route forward in the economic regeneration of the region. The TEC Regional Employer Survey 1998 found, however, only 14% of SME manufacturers in South Yorkshire exported, giving a clear indication of the enormity of the task.

A conclusion of Doole, Stokell & Lowe (1996) was that many of the respondent firms regarded exporting as an *add on activity* and so withdrew from international markets when orders in the home market improved or conditions on international markets became unfavourable. By contrast, a small but significant minority succeeded on international markets and showed a strong commitment to further expansion in their international activities. Thus, the findings suggested there was little recognition by a number of SMEs of the potential growth through international opportunities. This was again evidenced by Grimes (1998) in a study of the exporting activity of 600 SMEs in the Yorkshire and Humber region. This study found that 13% of the respondent firms had withdrawn from export activity in the period 1996-1998 due to the strong appreciation of sterling in that period.

The author was interested in studying the minority of firms that were successful on international markets, in order to develop insights into the nature of those firms and so better understand the capabilities that should be engendered in firms aspiring to international competitiveness. The need for such a study within the South Yorkshire Region was recognised amongst support providers themselves, particularly Rotherham Chamber of Commerce and Training & Enterprise and Sheffield Training & Enterprise Council. As a result of this interest, the fieldwork for this study was financially supported by the Department of Trade & Industry for Yorkshire & the Humber (now renamed Trade Partners UK, May 2000).

Declaration of Independence

The research undertaken for this PhD constitutes a part of a major research project instigated, developed and managed by the author in her role as Research and Consultancy Leader within the Enterprise Centre of Sheffield Hallam University.

In early 1996 the author first developed the research proposal to study the international marketing activities of firms that effectively competed on international markets. It was suggested, in this proposal, that having identified the practices and processes of such firms, a comparative study could be carried out of less successful firms to identify the gaps in good practice. After successfully securing the necessary funding, the study commenced in 1996. In September 1996, a researcher was appointed to the research team for the purpose of carrying out the comparative study.

The research plan and the semi-structured questionnaire used for the initial interviews were the design of this author. The collection of the data from the initial sample of 25 firms was carried out by both members of the research team and supported by a third researcher. The analysis of the data and all writing up of the data of the findings from the initial interviews of the 25 firms, with respect to both the requirements of the funding body and this thesis, has been entirely the work of this author.

Subsequent to the completion of the initial interviews, the research instrument was further developed by the research team to formulate a more structured questionnaire for the comparative study of another 75 firms. The final analysis incorporated some data from the initial sample of 25 SMEs for comparative purposes. The comparative study, and the subsequent long-term developments from the successful completion of the comparative study, fall outside the boundary of this thesis and have not been used in any way.

To meet the requirements of the funding body, a joint report was submitted to the DTI for Yorkshire & The Humber (Doole & Hair, 1997). This report described the initial findings of both the interviews of the 25 firms and the comparative study and is available for inspection.

As stated earlier in the chapter, the research interest of the author was in developing insights into the nature of the firms that effectively competed on international markets over a sustained period of time. This strand of the research project has been pursued independently by the author. The chapters of this thesis describe in some detail the research journey travelled by the author and are entirely her own work and constitute an independent contribution to the body of knowledge.

Summary & Conclusions

In this first chapter the aim was to establish the contributory value of this thesis and to reflect on the paradigmatic stance taken by the author. The paradigmatic stance impacts on the methodological approach taken. This has been discussed, and the research process undertaken in this thesis briefly outlined.

The author perceives this thesis very much as the story of the intellectual journey travelled by her in the course of the extensive reading, researching and writing that has gone into its completion. In this chapter, the key components of that story were explained and the structure of the thesis described.

The reader was then introduced to the political and economic context in which the research for this thesis took place. The reasons for the author's interest in the topic are explained and the rationale for the choice of the research subject discussed.

The aim of this thesis is to make a contribution to the body of knowledge seeking explanations as to why some SMEs effectively compete on international markets and to gain insights into the nature of these firms. The hope is that this thesis will inform debate on how SMEs trying to develop internationally should be best supported.

Chapter 2: A Review of Previous Research

Introduction

The objective of this chapter is to explore the theoretical corpus on which this thesis builds. Whilst the aim of this thesis is to carry out an holistic and exploratory research study, it was necessary, nevertheless, to explore the previous research that has contributed to the understanding of the factors affecting the performance of SMEs competing on international markets. The studies reviewed in this chapter deal entirely with the treatment of this subject within the SME population.

The major dilemma facing the author in reviewing this literature was that within this theoretical corpus, SME activities on international markets have been studied within the traditions of *export marketing*. This means that, rather than examining performance in terms of international competitiveness, the term *export performance* was used to denote performance on international markets. In research studies of the factors affecting international competitiveness the term *determinants of export performance* has been commonly used. The term *determinants* implies a focus on causal linkages between particular identifiable variables and export performance. This, of course, suggests an almost, "positivist view of research, that is, the process is directed towards the development of testable hypotheses and theory which are generalisable across settings" (Eisenhardt, 1989, p. 546).

This was perceived as a shortcoming by the author as it assumed a linear, and somewhat structured, cause and effect process. This notion ran contrary to the tradition of naturalistic inquiry, the dominant paradigm within which the research for this thesis falls. The aim of this thesis was to generate insights into the nature of firms competing effectively on international markets, by examining the subject from a fresh perspective. Nevertheless, the author saw the previous research as an important body of knowledge to review within the context of this thesis and valuable in establishing a view as to how the research for this thesis could contribute to the body of knowledge.

This chapter is structured in two parts. In Part 1, the previous research relating to the measurement of SME export performance is explored. In Part 2, the literature contributing to the understanding of the determinants of export performance in SMEs is reviewed.

Part 1: Measuring Export Performance

The relevance of the knowledge generated from the review of this body of literature was in the development of a pre-understanding of the research subject to inform the design of the research study. The research methods used are fully explained in Chapter 3. In setting out on the research process, the author was presented with a number of questions to be resolved. Firstly, there was a conceptual issue of what did previous researchers mean by export performance?; secondly, how was successful performance evaluated?; and thirdly, what indicators were used to measure export performance? Each of these issues will now be examined.

The Conceptualisation of Export Performance

The conceptualisation and operationalisation of the measurement of export performance is an integral part of export-marketing literature and has received considerable attention, particularly in relation to the factors affecting export performance in SMEs. However, as will be discussed in the second part of this chapter, the evidence of the determinants of export performance in SMEs is often contradictory and has not resulted in a clear understanding of the factors affecting export performance.

Diamantopoulos (1998), in introducing a review of the subject, suggested that the poor conceptualisation of export performance seemed to be one of the reasons why many of the research studies examining the determinants of export performance formulated contradictory recommendations, and arrived at differing conclusions as to what the critical success factors were. This echoed the views of Cavusgil & Zou (1994) who argued that advances in theory development in this area required a more integrated approach to the conceptualisation and measurement of export performance constructs. Matthyssens & Pauwels (1996), in their comprehensive review comparing and evaluating approaches to measuring export performance in SMEs, also suggested that theory building in the field of export marketing required "reliable, valid and consistent measurement of export performance" (p.109) if researchers were to achieve consistency in their attempts to identify critical success factors in export marketing. Matthyssens & Pauwels (1996), also observed that "the measurement of export performance is one of the thorniest, yet most fascinating, issues in export marketing research" (p.108).

However, the assumption by all these authors was that there was consensus as to what was meant by export performance. Yet very few authors defined export performance. Shoham & Albaum (1994) were a notable exception. They argued that it was important to define export performance in order to decide by what criteria it should be measured, as well as to assess its relationship with other constructs, such as marketing strategies, "since a conceptual definition should guide measurement, export performance should be defined in a way that will make resulting measures applicable to most firms by allowing multiple performance outcomes" (p.226).

They defined export performance as "the composite outcomes of the export sales of the exporting company."

Whilst this definition is helpful, in that it is an attempt to define export performance, it does illustrate the *sales oriented* view of SME activities on international markets taken by the research studies reviewed. It also puts the evaluation of export performance firmly in the exchange paradigm by focussing on the export sale itself, rather than the long-term performance of an SME competing on international markets.

Such a view can be seen in the UK in the Queen's Award to Industry for Export. This awarding body uses six criteria to evaluate performance and identify successful exporters:

- substantive and sustained increase in exports over three years;
- substantial increase in the ratio of exports to turnover;
- percentage of exports to total turnover consistently higher than the industry average;
- spectacular increase over a shorter period and greatest value of export sales by a company in a given year.

Thus, they too focussed primarily on the use of sales criteria to judge success rather than strategic and competitive dimensions. The criteria used to assess the award paid little attention to the long-term objectives of the firms competing on international markets.

Thach & Axinn (1994) in a study in the USA linked the export performance of SME manufacturers to marketing variables. They suggested that export performance was only explicable within the context of any given study. Thus, whilst a large number of studies examined the issue of export performance measurement, the lack of consistency of the findings was they suggested, because export performance could only be understood within the context of any given study. The lack of agreement as to how performance should be evaluated and what factors or criteria should be measured significantly impacted on how explanations of SME performance on export markets were sought. In the following sections, previous research examining how export performance should be evaluated will be explored before examining the criteria and factors used by previous researchers to measure export performance.

How Should Export Performance be Evaluated?

In examining the literature as to how export performance should be evaluated, the debate primarily centred around two key issues. Firstly, whether performance of the firm should be evaluated overall or whether the performance of individual export ventures should be evaluated. Secondly, whether an objective or a subjective view of export performance was the more valid.

Firm or Venture Level

One of the prime areas of contradiction and confusion in evaluating export performance in SMEs is the lack of agreement as to the strategic level at which performance should be evaluated. Should performance be evaluated at the level of the firm or should the performance of each individual export venture be measured? Of the large number of studies identified in Table 2.1, the majority focused on the firm level in evaluating export performance, suggesting this had been the prevailing view traditionally. However, eight of the studies evaluated performance at the venture level, (Fraser &

Hite, 1990; Saimee & Roth, 1992; Cavusgil & Zou, 1994; Zwart & Bijmolt, 1993; Evangelista, 1994; Katsikeas, Piercy & Ioannidis, 1996; Angalmar & Pras, 1984; Diamontopoulos & Schlegmilch, 1994; Zou, Taylor & Osland, 1998 and Styles, 1998).

Cavusgil & Zou (1994) studied the link between export performance and the export marketing strategy of 202 export ventures in 79 SMEs in the USA. They proposed that it was only by studying performance at a venture level that direct causal links could be established. These authors, as did Johne & Snelson (1988) and Hart & Craig (1993), proposed that interest in export performance at the level of the firm was purely academic, and that practitioners preferred to focus on measures associated with the success or failure of individual projects.

Thus, successful export performance in any venture was defined by Cavusgil & Zou (1994) as, "the accomplishment of strategic as well as economic objectives with respect to exporting a product into a foreign market" (p.2). Zou, Taylor & Osland (1998) developed the work of Cavusgil & Zou and refined and developed the export performance construct proposed by the original study. In a cross-cultural study of SMEs in the US and Japan, they evaluated performance at the venture level on the basis that, "this overcomes the potential difficulties in an attempt to measure firm level export performance" (p.41). However, they did not expand on what those difficulties were.

It seems the main argument for evaluating performance at the venture level rests on the notion that a firm initiates an export marketing venture with a number of objectives which can be economic (ie profits, sales or costs) and / or strategic (ie market expansion, competitive response, gaining a foothold in a foreign market or increasing awareness of the product or firm). The extent to which the objectives of a venture are achieved is, therefore, a gauge of the level of performance in the export venture. As the objectives can be clearly defined, it is easier to measure success against specific criteria within a given time period.

Success at the firm level is a much more multifaceted phenomenon. Cavusgil & Zou (1994) argued that SMEs find the concept of organisational performance hard to comprehend and therefore, measure with any clarity. They proposed that at the firm level, the potential determinants of success were difficult to identify as the performance of a firm in export markets may be due to anyone of a range of inter-related factors. Thus, in practice, they claimed SMEs evaluated performance in terms of each individual export venture. However, they did not provide substantive evidence to support this notion or examine how firms evaluated performance over time.

Styles (1998) evaluated the export performance of SMEs in the UK and Australia in an attempt to develop a construct which was robust across different cultures. He suggested that, in deciding how to evaluate performance in firms, the researcher had to ensure that the construct used considered three dimensions: the *effectiveness* of an SME's marketing strategy, the *efficiency* of the programme relative to the resources used; and *adaptability* of the SME to the changes in the environment (p.14).

Thus, Styles (1998) agreed with Cavusgil & Zou (1994) that the evaluation of an SMEs export performance at the venture level could measure the effectiveness and efficiency of a particular programme. However, it was suggested by Styles that to evaluate effectiveness over time it was necessary to conceptualise export performance at the firm level. Thus, performance of export ventures should be examined in the context of its contribution to the success of the firm over time.

The time dimension is an important one in this thesis. The aim of the author was to seek an understanding of SMEs that compete effectively on international markets over the longer term. The success or failure of an individual venture was of less importance than how that venture contributed to the longer term performance of a firm.

The contribution of individual ventures to a firm's overall performance may well be dependent on whether an objective or a subjective view is taken in evaluating performance. The implications of this debate to the study will be explored in the next section.

Subjective v Objective Views of Export Performance

Matthyssens & Pauwels (1996), in referring to the work of Piest (1988), argued that, in order to conceptualise export performance, the *frame of reference* (p.98) in which export performance was being evaluated needed to be set out. The majority of the studies examined in Table 2.1 conceptualised export performance within an *objective frame* of reference (Matthyssens & Pauwels, 1996) and evaluated export performance by the use of financial indicators or strategic outcomes, such as market share or export/sales ratio as opposed to more *subjective* measures using attitudinal indicators.

This raises an interesting epistemological issue in that there is an assumption made that by evaluating performance using objective measures the researcher avoids the use of subjective reference points and so avoids bias in evaluating performance. According to Matthyssens & Pauwels (1996), using objective measures, enabled greater consistency of measurement to be achieved across a sample. However, this assumed it was possible to access information which may not be readily available. Market share is a critical objective measure in domestic marketing but is much more difficult to define and measure in export markets, especially when applied to an SME that may be competing across a number of fragmented markets. Furthermore, subjectivity is still present as the researcher will need to decide the cut-off point between what level denotes success and what level is regarded as failure. This perhaps suggests the need to recognise the existence of the subjective perspective in evaluating export performance.

Katsikeas, Deng & Wortzel (1997) studied the critical success factors of export performance in a sample of 1,000 SME manufacturing firms in Canada. They suggested that underlying the objective frame of reference in evaluating export performance was the assumption that managers were in control of the process of strategy formulation and implementation. In export markets firms are faced with a whole array of extraneous factors over which they have little or no control. In such cases the SME may evaluate the performance of the firm in the context of the challenges faced in the international marketing environment. In the evaluation of export performance, therefore, the firm's perceptions of success may be more relevant than pure objective measures. Thus, in referring to the three dimensions articulated by Styles (1998), objective measures may be capable of capturing the efficiency of a firm's operations but perhaps less able to capture the effectiveness of a firm's export performance.

Madsen (1998) argued that the evaluation of export performance by researchers should reflect the *theory-in-use* (p.81) by the owner or manager of the SME. In a study of 134 SMEs in Denmark, Madsen explored how firms themselves evaluated performance. He found that, whilst firms wanted to use objective and absolute measures, the respondents found them insufficient in themselves, and so combined such measures with subjective criteria, such as contribution to the firm's strategic position, new relationships formed in a given time and development of product development skills. Madsen confirmed the work of Katsikeas, Deng & Wortzel (1997) and suggested that SMEs had a *relative* rather than an *absolute* perception of export performance evaluation. SMEs evaluated export performance relative to other measures by using benchmarks against which performance on export markets was evaluated. Benchmarks such as previous time periods, a manager's implicit or explicit goals, performance in the domestic market, or a particular competitor in export markets were most common.

This was in keeping with the profile of firm-level SME export performance literature from 1978 to 1991, built by Chetty & Hamilton (1993). They defined successful exporters as, "those with a ratio of exports to total sales greater than or close to the industry average" (p.13) on the basis that firms evaluated performance relative to their close competitors. However, this presupposed the firm closely identified with its industrial sector and used performance criteria within the industry as its benchmark. As discussed earlier, this may not necessarily be the case, nor indeed possible. Matthyssens & Pauwels (1996) in their review did question such strategies. Firstly a firm often did not necessarily know the direct competitors in any given export market and was therefore unable to obtain information as to their performance in that market. Secondly, in comparing performance to either the domestic market or the strategic goals of a firm, performance was evaluated using a manager's assessment, and, therefore implicitly accepting the manager's definition of success or failure was, essentially, a valid one.

This was an important issue within this thesis. As explained in Chapter 1, the research inquiry for this thesis followed the traditions of the naturalistic paradigm. As such, the research was be based on the ontological assumption that reality was relative to how the individual created and interpreted the world (Guba, 1985). The naturalistic paradigm therefore, recognises the importance of the subjective experiences of individuals in creating that world.

Thus, the assumption was made that any individual construction is that individual's attempt to make sense of reality and that this sense was dependent on the information available. As this changes, so can the construction change. This, as was discussed in Chapter 1, inherently suggests, therefore, that the posture of *pure objectivity* was difficult to achieve in reality and that the posture of *perspective* (Schwartz & Ogilvy, 1979, p.16) was more appropriate in that it accepted that phenomena should be viewed from a multiplicity of perspectives.

This is consistent with the ideas behind the *theory-in-use* as expressed by Madsen (1998), in that this approach recognised the contribution of the managers and owners of the SMEs themselves in the understanding of how best to conceptualise export performance.

In conceptualising the performance of SMEs on international markets, it is suggested by this author that it is important to incorporate differing perspectives, subjective as well as objective. It was seen as important in selecting the sample for this study, that the multidimensionality and complexity of a firm's performance on international markets over a period of time was reflected. Thus to achieve an insightful understanding of the nature of SMEs that compete effectively it was thought necessary to recognise the relevance of the subjective assessments made by the SMEs themselves.

What Indicators Should be Used to Evaluate Performance

In previous research studies, a variety of indicators was used to measure export performance. Broadly speaking, these can be divided into three different types: financial, strategic, and the use of attitudinal measures. An illustration of the studies using the different types of measures is illustrated in Table 2.1.

As can be seen from this table, a key performance indicator used in a large number of studies was *sustained profitability.* The question arises as to whether sustained profitability was too broad an indicator to be directly attributed to export performance. A number of the studies listed did use indicators that could be directly attributed to the export performance. Factors such as evolution of the export/sales ratio, return on investment, export profits and operating profit ratios were commonly used.

Financial indicators were traditionally viewed to have the capacity to measure performance using consistent indicators which could be readily identified, measured and compared against other time periods as well as other benchmarks. This is, perhaps, why, in a review of methods used by firms to evaluate performance, Eccles (1991) suggested that financial measures were commonly used as they were viewed by firms as being a valid base, not only for future decision making, but also, for comparative analysis.

In a seminal review of the SME export performance literature between 1971-1988, Aaby & Slater (1989) concluded that the use of financial indicators to measure export performance in SMEs had been the most prevalent type of indicators used in research studies in that period. Eccles (1991) signalled that whilst this was a characteristic of studies in the previous decade, in the 1990s there would be a shift away from treating financial figures as the foundation for performance measurement to treating them as one among many of a broader set of indicators. This was confirmed in the review of Matthyssens & Pauwels (1996) who identified a trend in the research studies in the period 1990-1995 to the use of non-financial indicators.

In the more recent studies, *strategic indicators* have been used in the evaluation of export performance in SMEs. The achievement of strategic goals, improved competitiveness, (Bijmolt & Zwart, 1994; Katsikeas, Piercy & Ioannidis, 1996; Cavusgil & Zou, 1994; Styles, 1998), increased market share and export sales growth, (Zou, Taylor & Osland, 1998 and Madsen, 1989, 1998); were examples of the range of measures used to evaluate performance. Recent studies also incorporated a range of *attitudinal* indicators. These measures included perceptions of success, for instance: expectations of the management and how they were met (Samiee & Roth, 1992; Madsen, 1998); or indirect measures, such as a change in attitude to towards exporting

(Styles, 1998); or overcoming perceived barriers to growth on international markets (Diamontopoulos & Schlegmilch, 1994).

Thus, there was evidence of a shift away from the use of objective measures and the sole use of financial indicators; to the use of a more subjective frame of reference and the use of a range of strategic and attitudinal indicators.

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Another significant shift has been the move away from the use of simplistic singular indicators to evaluate performance, to the development of composite frameworks which encapsulate export performance in SMEs as a multifaceted phenomenon. Aaby & Slater (1989); Hart & Craig (1993) and Matthyssens & Pauwels (1996) criticised earlier studies for using single indicators in evaluating performance. These authors argued that using a combination of financial measures and strategic indicators enabled the researcher to evaluate more easily the drivers for future performance and so using composite measures was more valid than using single indicators.

Cavusgil & Zou (1994) combined financial and strategic indicators in the development of their export performance construct. This enabled the researchers to take into account less tangible indicators and provided a more composite picture of a firm's performance. This construct has been further refined and developed by Styles (1998) and Zou, Taylor & Osland (1998).

A variety of other alternatives have been proposed. The use of performance scales was suggested by Evangelista (1994). Hart & Craig (1993) suggested a points system be used, whereas Cavusgil & Kirpalani (1993) used a self-classification, based on the respondent's judgement. However, concern was expressed by some researchers that, whilst composite measures captured the multi-dimensionality of performance, they masked the individual dimensions of the various indicators used. To overcome such difficulties, some researchers considered a number of performance dimensions, but did so independently (Kaynak & Kuan, 1993 and Lee & Yang, 1991). Doing this, it was argued, they captured the multi-dimensionality of export performance without masking the relationships across the indicators.

However, whatever the indicators used, the researcher, in evaluating performance, had to make a judgement ultimately as to what constituted successful export performance. That judgement was invariably an outcome of how export performance itself was defined and conceptualised within the context of the research study being described. Such issues faced the author of this thesis in the selection of the sample of firms to be studied. The process by which such decisions were made is fully discussed in Chapter 3.

A Summary of the Measurement of Export Performance

In measuring export performance, researchers have been wrestling with such issues as to how to define and conceptualise export performance, whether performance should be measured at the firm or venture level, whether a subjective or objective frame of reference was most appropriate and what indicators should be used. The author suggests that the sales oriented view of earlier studies in export performance placed this area of literature within the exchange paradigm, focussing the study of export performance within the context of the sales transaction.

However, there does seem to have been an apparent move, in the decade since 1990, toward a recognition that the conceptualisation of export performance in SMEs needs to reflect the multi-dimensionality of firms on international markets. Furthermore, in evaluating performance, researchers need to incorporate a composite of measures, both objective and subjective, that are capable of evaluating the performance of a firm over a period of time.

The literature reviewed so far was used by the author to develop the knowledge and pre understanding of the issues to be resolved in the development of the research design to study firms competing internationally and select a sample of firms to study. The resultant research methods will be detailed and discussed in Chapter 3.

It is interesting to note that two important contributions to this field of literature, made in 1998, illustrated that the shortcomings in previous literature already identified by the author also received attention from other authors.

Firstly, the contribution by Styles (1998) previously mentioned, who suggested that any conceptualisation of export performance should incorporate three dimensions; the *effectiveness* of a SMEs marketing strategy; the *efficiency of outcomes* achieved and *adaptability* of the SME to respond to changes in the international environment. This takes a much wider strategic view of export performance, incorporating the competitiveness dimension and the responsiveness of the firms to its international marketing environment over a period of time, and is more consistent with the pre-understanding of the author and her views as to how the study of the nature of firms competing internationally should be approached.

Secondly; the contribution by Shoham (1998) who, building on the work of Shoham & Albaum (1994), explored the conceptualisation of export performance by an empirical examination of data from 93 Israeli exporters. In this study he proposed that any conceptual definition of export performance should address each of the two parts: *export* and *performance* (p.60). Whereas in Shoham & Albaum (1994) exports were defined in terms of sales, in the study carried out in 1998, Shoham defined export conceptually as "the international marketing-related decisions and activities of internationally active firms" (p.60).

This took a much more strategic perspective and incorporated the notion of international competitiveness within the context of the SME.

This signifies a definite shift in the perspective being taken in the study of SME activities on international markets and their competitive performance and is totally consistent with the approach taken in the research to be discussed in the subsequent chapters of this thesis. The author believes, therefore, the contribution made by this thesis will complement and build on this apparent trend.

In this section the discussion has been solely concerned with the examination of how the measurement of export performance has been tackled by previous research studies. The second, and related area it is necessary to examine in this chapter is that relating to the identification of the factors that determine performance on export markets.

Part 2: The Determinants of Export Performance

As was discussed in Chapter 1, the notion of *determinants* is contrary to the traditions of the naturalistic inquiry paradigm within which the research study for this thesis falls. The term *determinants* implies a focus on causal linkages between apriori variables and export performance, which conflicts with the process of analytical induction and inductive theory building.

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Nevertheless, this body of literature made an important contribution to the pre-understanding of the author in that the literature focused solely on the SME, the research context for this thesis. The review of this literature also contributed to the understanding necessary to develop the research instrument for the initial interviews.

Towards a Consolidation of Existing Empirical Research

Many studies have researched the determinants of export performance in SMEs in the last thirty years. Unfortunately, as in the literature on the measurement of export performance, much of this was fragmented. Aaby & Slater (1989) recognised the need to consolidate existing empirical export research and carried out a comprehensive review in order to clarify the findings of export research to help focus future research efforts. From a descriptive analysis of 55 export research studies carried out on SMEs in the period 1978-1988 these authors proposed, *The Strategic Export Model* (Aaby & Slater, 1989, p.7) as depicted in Figure 2.

Figure 2: A General Model for Assessing Export Performance and Variables

do not copy fig 2 pg 34

Source : Aaby & Slater (1989)

The value of the Aaby & Slater review is its identification of the large number of individual factors determining performance and the categorisation of the factors internal to the SME. The authors identified three categories of variables: a firm's characteristics, a firm's competencies and export-marketing strategy variables as determining export performance; the external environment was treated as a given constraint. Aaby & Slater suggested that it was the characteristics and competencies of a firm which influenced the export marketing strategy which directly impacted on performance.

However, in classifying variables into these three categories, Aaby & Slater did not offer any rationale for the allocation of them into their specific categories. It could be argued, for instance, that the competencies of quality and communication are marketing strategy variables, as opposed to competencies. Likewise, the division of firm characteristics contained a wide range of factors that did not seem to have much in common; for instance, firm size and attitude to export.

Furthermore, the relative importance of the variables is unclear. Aaby & Slater drew a number of general conclusions, but offered no clear direction as to the importance of the different individual variables or their relationship to the other variables identified.

Bijmolt & Zwart (1994), in refining the model, argued that it was important to examine how the variables were inter-related. They suggested a primary distinction had to be made between variables that were starting points for a firm developing exports, and variables that were used by an SME to stimulate its export activity. Bijmolt & Zwart (1994) suggested that, whilst a firm's characteristics influenced the exporting policy, it was the management's ability to develop export marketing plans, their attitude to export and the organisational structure of the firm which directly impacted on a firm's export performance. The most important variable, they suggested, was export-marketing policy which was influenced by three latent variables: organisational structure, attitude of managers to export, and an export marketing planning factor.

However, the Aaby & Slater model has to be an important starting point for any literature review in this area. The research studies carried out since 1989 make constant reference to the Aaby & Slater review, to such an extent that it can be seen as the basis from which the body of knowledge, relating to the determinants of export performance, was developed.

Since 1989, two lines of research were of particular interest to this study; the body of research examining the particular variables and their importance in determining export performance and the body of research that refined and developed the conceptualisation of the determinants of export performance. Each of these areas will now be explored.

Variables Influencing Export Performance

There is little dispute as to the relevance of the variables identified in the Aaby & Slater review. In the literature, however, there are a number of differing opinions as to the relative importance of the individual variables. The studies have been classified according to the categories identified by the Aaby & Slater review.

Firm Characteristics

Within the category of firm characteristics, a number of variables received particular attention. Dichtl et al, 1990); Shoham & Albaum, (1994) all argued that a key variable determining export performance was the *size of a firm.*

One of the reasons the activities of SMEs on international markets are seen to deserve special attention is the challenges SMEs with limited resources face competing on international markets. Perhaps it is unsurprising, then, to find that research studies established a link between the size of a firm and export performance. However, a number of research studies have questioned that such a direct link exists.

Bonaccorsi (1992), in an analysis of data from five national studies of small exporters in Italy, questioned the assumption that there was a direct relationship between a firm's resources, export behaviour and performance. He argued that this was misleading on the basis that firms with the same amount and quality of resources may well choose different export strategies and thus strategy must be a mediating variable in the relationship between a firm's resources and export behaviour, not the size of the firm.

Katsikeas (1994), in a study of 57 indigenous Greek SME manufacturers, confirmed this view. Larger firms achieved a better competitive position than smaller firms when they had a greater marketing capability and product superiority. Katsikeas, Deng & Wortzel (1997) further developed this theme in a different national context in their study of SME exporters in Canada. In this study they found that the level of export involvement of the firm and the type of product marketed were more important in respondents' perceptions of factors contributing to export success than was the size of the firm. Thus, it seems whilst firm size may be an obvious explanatory factor in export success in some firms it was not necessarily viewed as a determinant of export performance.

Samiee, Walters & Du Bois (1993) carried out a study assessing the attitudes of a sample of 224 SME manufacturer exporters in the USA. In this they identified a number of management characteristics important in determining export performance of SMEs such as: the need for achievement, risk-taking propensity, independence, creativity and innovative behaviour.

However whilst a large body of literature found a positive relationship between managerial attitudes and exporting behaviour, (Sullivan & Bauerschmidt, 1990; Holzmuller & Stottinger, 1996; Styles & Ambler, 1994) other studies found little or no relationship. For instance, Eshghi (1992), in a study of over 500 small firms in the USA, questioned the positive link between top management attitudes towards exporting and actual exporting behaviour. He argued that the link had been so widely assumed that negative findings were regarded as anomalies or dismissed as unsound on methodological grounds. Cavusgil & Naor (1987); Reid (1983); Schelegmilch & Crook (1988) all argued that management characteristics cannot influence the export decision process as the export process in a firm is something that evolves and changes with time, depending on a number of variables, and was not something that could be fully directed and controlled by management. This being so, they argued that management characteristics cannot be a determinant of export success.

Whilst this may be so, in the context of an SME where the managing director / owner may be in full control of the firm's entire operations, it is difficult to envisage a situation where that person does not have a major influence on the export performance of the firm.

Holzmuller & Stottinger (1996), in a study of 100 SME exporters in Austria, proposed that simply looking at management characteristics only offered a partial explanation and that management characteristics should be examined in the context of the ideology of the organisation in which the managers operated. They proposed that it was the ideology of an organisation that determined the priorities of the firm and its values, as well as the managerial capabilities within an organisation.

This had two implications for the research undertaken by the author; firstly, if this were so, it would mean that influences of the various management characteristics were difficult to isolate and so perhaps best studied holistically. Secondly; it implied the role of the ideological orientation in an organisation in determining both management characteristics and export performance was not really understood in the context of SMEs competing on international markets. There was a need then to more fully understand the relationship between the attitudes of the management and a firm's performance on international markets.

Firm Competencies

The competencies receiving attention as determinants of export performance are primarily associated with the production methods/technology of the firm, (Cavusgil, 1984; Cooper & Kleinschmidt, 1985; Daniels & Robles, 1982), quality control processes (Burton & Schlegelmilch, 1987; Christensen et al, 1987 and Joynt, 1982), personnel experience and training, (Beamish & Munro, 1987; Bourantas & Halikias, 1991; Kirpalani & MacIntosh, 1980) and operating efficiencies, (Dess & Davis, 1984; Parker & Helms, 1992). Competencies that have been directly associated with export success include domestic market performance, product uniqueness, production capacity, labour skills and the type of industry in which the firm operates. Ogbeuhi & Longfellow (1994) and Katsikeas, Deng & Wortzel (1997) both made reference to factors such as, export market planning skills, quality of export staff, foreign market connections and financial management skills as being critical determinants of export performance.

Aaby & Slater (1989) proposed competencies in all these areas were critical to export success. Conversely, weakness in these areas was seen as a potential cause of failure in export markets. Ogbeuhi & Longfellow (1994) examined the views of the chief executives of 235 SME manufacturers in the USA in an attempt to ascertain their perceptions of the factors necessary for export success. In this they found that export market failure often resulted from poor market analysis, absence of product market match, ineffective distribution and lack of management planning and control.

Whilst it is hard to disagree with these observations, it should be questioned whether the lacking of such competencies was the cause of failure or in fact symptomatic of other failures. From the literature examined it is difficult to ascertain whether or not the lack of competencies in key areas was more likely to be attributable to the inadequacy of management decisions. For instance, ineffective distribution may be the result of a failure to integrate the planning of the distribution of products into the strategy development process and not necessarily the reason for failure itself. Thus, it could be more appropriate to view ineffective distribution as a failure of the firm to prioritise these competencies and assign the relevant resources.

Whilst the previous research identified the competencies that determine export performance, it did not give any real insight into the management processes necessary to build those competencies. There was a tendency in the studies to focus upon single variables, and a preoccupation with isolating the variables which can be identified as the key to determining performance, the assumption being that if a firm focuses on achieving such a competence it will directly affect performance in export markets. The author suggests that such a deterministic relationship needs to be questioned. What, perhaps, is more important is to gain some insight into the processes within the firm underlying these competencies. It is the nature of such processes that the author explores in the research underpinning this thesis.

Strategy Variables

Piercy (1989), in a conceptual paper relating to managing change in marketing, argued that, in the light of an intensifying competitive climate, the direct linkage of marketing capability with export performance meant that the adoption of market-led strategies was necessary for survival in export markets. Export marketing strategy in this case, therefore, was seen to be the link between a firm being successful in generating competitive advantage on export markets and the resultant export performance.

However, Cavusgil & Zou (1994), in their analysis of 202 export marketing ventures in the USA, pointed out that the same marketing strategy did not necessarily lead to the same results in all export market ventures. Consequently, these authors felt that, to understand fully the relationship between export marketing strategy and export performance, the role of the product in contributing to the success of a particular venture had to be examined in order to obtain a more precise measurement. This was one of the reasons why they argued that success should be measured at the venture level, as opposed to the firm level, as was discussed in an earlier section of this chapter.

Much of the earlier work examining strategy variables focused on individual variables, which impacted on the ability to export effectively (Cunningham & Spiegel, 1971; Simpson & Kuwaja, 1974; Bilkey & Tesar, 1979). Researchers concluded that the most important factors that contributed to the firm's success in exporting were: product design, persistence in the market, market knowledge and long-term planning by the firm's management. There seemed from these studies to be a positive relationship between the role of marketing policy elements and export success, but these studies shed little light on understanding the relative importance of individual variables identified.

Sriram & Sapienza (1991), in a study of 121 SME exporters based in the State of New York, attempted to identify the marketing variables most associated with export performance. They concluded that outlays in sales efforts, public relations activities, distribution support and market research expenditure were most needed to support successful export marketing. Thus, for high performing firms exporting to a large number of countries, competitive success came at a high cost.

Madsen (1989), in a survey of 82 Danish SME exporters, suggested export marketing policy stood out as the most important explanatory group of variables in relation to export performance. He argued that product uniqueness and product quality had a particularly strong impact on export performance. There was, also, a strong association between product strength and a firm's ability to find good agents / distributors in export markets. Agents / distributors who had a high level of confidence in the product were, in turn, found to be more actively willing to support those products in export markets. This in turn had a positive impact on performance. Thus, this study sought to include a wider array of explanatory variables and relate them to export performance.

Styles & Ambler (1994), in their study of 67 winners of the Queens Award for Export in the UK, found the key variables to be good personal contacts with the market and close relationships with the intermediaries handling a firm's products. Thus, this study placed a priority on relationship variables in determining export performance. This is consistent with the findings of the study by Louter, Ouwerkerk & Bakker (1991) carried out amongst a sample of 334 SME Dutch exporters. They suggested that the key determinant of export performance was the efficiency by which the SME exporter implemented its marketing strategy and organised its interface with its export customers. Thus key determinants of export performance were after sales service, flexibility, delivery on time, packaging, uniqueness and reliability. Katsikeas, Piercy & Ioannidis (1996) also viewed communication with export markets as the key variable. The study by Thirkell & Dau (1998) of 263 SME export manufacturers in New Zealand also provided empirical support for the importance of marketing variables in determining export performance.

However, in all these studies, export marketing strategy is conceptualised in terms of the marketing mix paradigm (product, price, place & promotion) and the view seemed to prevail that strategy is simply a consequence of building a mosaic of autonomous parts. As such, the focus of much of the work in this area was on the identification of which of these parts were critical to export performance.

The strategic variables identified by previous research studies were important in helping the author develop a pre-understanding of the factors and variables which, perhaps, needed to be incorporated in the research study. However, whilst the literature identified significant variables it did not give the author any real insight into the underlying processes of international strategy development, nor why firms found certain types of marketing strategies more effective than others in competing internationally. To use the iceberg metaphor, (Gummesson, 2000) previous research identified the variables that could be seen above the water. The shortcoming was that it was difficult from this literature to gain any insight into the less visible part of the SMEs activities such as the processes that gave rise to the strengths of these variables.

A second shortcoming of the literature reviewed was that it was difficult to gain any real insight into how the variables identified inter-related with each other and with the external marketing environment. Chetty & Hamilton (1993) profiled firm level export performance literature, 1978-1991, and attempted to assess the strength of the association between the dependent variables (ie firm characteristics, competencies and strategy), and the independent variable of export performance. They drew the conclusion that competencies were seen as more important than firm characteristics, and within export marketing strategy, market selection, product mix and pricing were seen as the critical dimensions. However, despite their intentions, Chetty & Hamilton did not successfully shed any light on the relationships between variables. Thus, whilst making a contribution to the understanding of the relative importance of variables, they too, did not give any insight into how the different categories of variables interacted.

One of the reasons, perhaps, for this deficiency is the isolated nature of this body of literature. The authors in the research studies reviewed predominantly sought explanations for the observations of phenomena from within a limited area of literature. A number of researchers questioned the narrow field of literature drawn upon to seek explanations of SMEs international activities (Styles & Ambler, 1994; Cavusgil & Zou, 1994; Yeoh & Jeong, 1995 and Holzmuller & Stottinger, 1996). Central to the contributory value of this thesis is the intention to draw from a wider field of literature in seeking explanations of SME behaviour and to do so by inductively exploring the nature of firms identified as competing effectively on international markets. In so doing, the author builds on the work of the researchers mentioned above, but draws from a wide range of literature in seeking explanations for the phenomena observed.

The final area of literature to be reviewed in this chapter is the body of research that refined and developed the conceptualisation of the determinants of export performance. In the following section, the author will explore the validity of some of the key contributions to the development of the research underpinning this thesis.

Alternative Export Behaviour Frameworks

Cavusgil & Zou (1994) supported the contention that export marketing strategy, a firm's international competence and managerial commitment were the key determinants of export performance. Whilst all categories of variables had a direct impact on export performance, as was discussed previously, the authors prioritised the choice of export marketing strategy as the paramount variable. They propose that to improve performance, firms needed to implement appropriate marketing strategies. However, these strategies needed to be appropriately co-aligned within the context of internal forces, such as firm and product characteristics and external forces, such as industry and export market characteristics.

Internal forces of paramount importance were product adaptation strategies, managerial international experience and competence and the ability to develop a network of competent foreign distributors.

The authors proposed a conceptual framework of export marketing strategy and performance. In this, exporting was conceptualised as a strategic response by management to the interplay of internal and external forces (p. 3).

Figure 3: An Operational Model of Export Marketing Strategy and Performance

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Source: Cavusgil & Zou (1994), p.3

This was an important departure from the Aaby and Slater model, which was, essentially based on the structure, strategy, performance paradigm which viewed the external environment as a fixed constraint. The particular theoretical perspective adopted by Cavusgil & Zou was the principle of the strategy- environment co-alignment (Aldrich, 1979; Porter, 1980 and Venkatraman & Prescott, 1990) which stated that the *fit* between a strategy and its context (in this case the external exporting environment) had significant implications for a firm's performance. Yeoh & Jeong (1995), in proposing a contingency approach to examining determinants of export behaviour, further built on the work of Cavusgil & Zou.

Yeoh & Jeong (1995) carried out a selective review of export performance studies conducted within the structure / strategy / performance paradigm. They criticised previous performance determinant studies for a tendency to focus on simple bi-variate relationships without probing the possibility of moderating effects by other important contextual factors that could strengthen or even weaken such relationships. They questioned the assumption that a single variable of interest could have a direct effect on performance when interplay of internal and external factors in a study were neglected (Yeoh & Jeong, 1995).

They suggested that the lack of consistency and diversity of results in export performance studies was entirely due to this and pointed to the need to explore the contextual dimensions of export performance. However, in order to do this, it was necessary to take a contingency perspective in examining the determinants of performance in export markets. The contingency approach had been widely discussed in domestic marketing literature, (Day & Wensley, 1983; McKee et al, 1989; Reukert & Walker, 1987) but had been little used to in export research up to this time.

Thus, Yeoh & Jeong emphasised the importance of the situational influence on the management of organisations and questioned the existence of a single best way to manage or organise for export success. In seeking explanations, therefore, they suggested the need to integrate the literature in export marketing with that of strategic management, entrepreneurship and organisational-behaviour literature. This would help to establish a much better understanding of the linkages between strategy and the performance of small / medium sized enterprises on international markets.

Thus, Cavusgil & Zou and Yeoh & Jeong contribute to the work being undertaking for this thesis by signalling the need to draw from a wider field of literature in seeking explanations for the exporting behaviour of SMEs.

However, whilst the contribution of these authors is valued, there were two limitations with regard to exploring the nature of firms competing effectively on international markets. Firstly, both sets of authors still conceptualised strategy within the marketing-mix paradigm. Secondly, whilst external forces were seen to influence export marketing strategy, this was a uni-directional and sequential influence in that external forces influenced export-marketing strategy which, in turn, impacted on export performance. This seemed to assume a linear process and did not take into account any possible feedback from performance in export markets into the strategy of a firm. Thus, there was an assumption that the determinants of export performance interacted in an orderly fashion with little interaction of any of the other influences. The author, therefore, viewed this as an area which required further exploration.

In light of the discussions in the above paragraph, the contribution by Styles & Ambler (1994) was interesting for two reasons. It was one of the few studies conducted within the UK context, and the authors proposed the *relational paradigm* as an alternative framework in which to view the determinants of export performance.

Styles & Ambler suggested that the literature in export marketing performance was rooted in the traditional marketing mix or 'neo-classical paradigm'. Thus "the focus is on micro economic analysis and the optimal use of marketing mix elements in the pursuance of profit." (p.28).

This meant that export research was seen to have been too concerned with the measurement of short-term outputs of export selling activities.

Styles & Ambler suggested that the factors influencing export performance should be viewed as a multi-dimensional process. To understand the determinants of export performance, they argued it was necessary to conceptualise SMEs export activities as the development of a network of relationships between the company, the customer, members of its supply chain and other groups who may influence the firm.

Such a view was consistent with the internationalisation literature and the work of the International Marketing and Purchasing group, (IMP), (Rosson & Ford, 1982; Hakansson, 1982; Johanson & Vahlne, 1992). The IMP group viewed a firm as internationalising through the network of relationships it formed. A firm began exporting by forming relationships which delivered experiential knowledge about a market and then committed resources to that market in accordance with the degree of experiential knowledge it gained progressively from those relationships.

Styles & Ambler suggested the relational paradigm was a valid approach to investigate SMEs export activities and suggested the *hybrid model of export performance* as depicted in Figure 4 as a way to explain export market performance. Only one study, it seems, (Rosson & Ford, 1982) had previously investigated the linkage between relational variables and export performance in SMEs and this was purely an exploratory study. It was also consistent with a growing body of literature in strategic marketing, which argued that marketing effectiveness should be examined from a relational perspective rather than the simple transaction approach.

Figure 4: A Hybrid Model of Export Performance

do not copy fig 4 pg 46

Source: Styles & Ambler (1994), p.42

Within the firm, Styles and Ambler viewed the management characteristics and core competencies as key elements. However, it was through the relationships the firm formed, that the SME was able to build resources the firm needed to facilitate better decision making. The development of the marketing strategy was a direct output of this process. Environmental factors were seen to impact on both the relationships and strategy as both existed within the environment of the firm.

Styles & Ambler suggested a bridge needed to be made between the current relational models and export marketing from the neo-classical perspective. Thus, the attainment of objectives such as sales, share, profits, growth needed to be linked to key relational variables if the paradigm was to prove useful for future research. This work marked a departure from previous approaches in that it attempted to explain how an SME interacted with its international marketing environment. It raised some interesting questions as to how firms operated on international markets and suggested that, in examining export performance, researchers needed to examine how these relationships interacted and influenced the firm. As such, it attempted to overcome the criticism levelled at studies that only examined simple bi-variate relationships. They also minimised the emphasis on single variables by suggesting the need take into account a number of determinants simultaneously and that future studies needed to reflect the multi dimensionality of the determinants of export performance.

This view was consistent with those expressed by Holzmuller & Stottinger (1996). These authors suggested that if the understanding of SME activities on international markets was to move forward it was necessary to recognise that as a business organisation, an SME was a complex entity. The development of an SME, therefore, was influenced by the interaction of a multitude of variables and behavioural characteristics that have to be studied in the context of both the organisation of the firm, and the environment in which it operated. The work of Styles & Ambler proved, in the research undertaken, to be an important contribution from which the author was able to develop the findings of the study.

Summary and Conclusions

The objective of this chapter was to generate an understanding of how previous researchers tackled the issue of measuring performance of SMEs on international markets and to explore the previous research that contributed to the understanding of the factors determining the performance of firms competing on international markets. Gaps in the literature have been identified and the theoretical corpus on which this thesis builds, critiqued. The studies reviewed in this chapter dealt entirely with the treatment of this subject within the SME population.

In the measurement of export performance, researchers have been wrestling with such issues as to how to conceptualise performance, whether performance should be measured at the firm or venture level, whether subjective or objective frames of reference should be used as well as what indicators should performance be measured by.

The literature appears to be moving towards a recognition that any conceptualisation of export performance needs to reflect the multi-dimensionality of firms on international markets. Furthermore, in evaluating performance, researchers need to incorporate a variety of measures, both objective and subjective, that are capable of measuring the performance of the firm over a period of time.

In identifying a sample of firms competing effectively internationally, it was considered important that all these factors be taken into account and that the methodology developed incorporate both subjective and objective factors.

The body of literature examining the determinants of export performance was then explored. Previous research studies were viewed as following the traditions of the positivist paradigm and, generally, used deductive research methods in the search to identify the variables that determined export performance.

The classification of variables as suggested by Aaby & Slater (1989) was used to categorise the studies reviewed. It was suggested there was a tendency in previous research to focus upon single variables and a preoccupation with isolating the variables thought to be the key to determining export performance. It was suggested that there was an assumption of a direct relationship between certain variables and performance in export markets. The author questioned such a deterministic relationship and suggested it was necessary to gain more insight into the processes within the firm underlying the variables identified.

In terms of the Gummesson (2000) iceberg metaphor, the variables identified in previous research were viewed as activities visible above the water. The author of this thesis suggested that it was difficult from the literature reviewed, to gain an insight into the less visible underlying processes. She therefore concluded the exploration of these underlying processes should be an integral part of the research undertaken for this thesis.

There was also concern for the narrow view of export marketing strategy which had prevailed in previous literature. The research to date sought explanation for the behaviours observed, principally drawing upon the exporting research literature within the marketing mix paradigm.

Cavusgil & Zou (1994), Yeoh & Jeong (1995) and Holzmuller & Stottinger (1996) signalled the need to draw from a wider field of strategic management literature and organisational behaviour in seeking explanations for the exporting behaviour of SMEs. Whilst the need for strategic considerations in marketing theory has long been emphasised in domestic marketing, this body of literature has not really been drawn on in seeking explanations for the success of SMEs competing on international markets.

The work of Styles & Ambler (1994) also raised some interesting questions as to how firms operated on international markets. Styles & Ambler suggested that, in examining export performance, researchers needed to draw from relational marketing literature. The work of these authors marked a departure from previous approaches, in that they attempted to explain how an SME interacts with its international marketing environment and tried to express the multi-dimensionality of the determinants of export performance.

In the research for this thesis the author drew on these wider fields of literature in seeking explanations of the behaviour of SMEs on international markets. There was a recognition that SMEs were complex entities whose development was influenced by the interaction of a multitude of variables and behavioural characteristics which had to be studied in the context of both the organisational behaviour of the firm and the environment in which it operated.

Finally, many of the issues which have arisen as a result of reviewing extant literature point to the necessity of researching the export marketing activity of firms over a period of time through longitudinal research. Much of the previous research had been conducted at a single time interval and, consequently, only enabled the researcher to explore historical behaviour patterns. Longitudinal research enabled this author to explore the behaviour of firms in much greater depth, from which a much richer understanding of the nature of firms competing effectively on international markets was hopefully developed.

Chapter 3: Research Methods

Introduction

As discussed in Chapter 1, inquiry in the naturalistic paradigm is based on the ontological assumption that an understanding of reality is relative to how individuals and groups create and interpret the world (Guba, 1985). The naturalistic paradigm recognises the importance of the subjective experiences of individuals in creating that world. It is also suggested within this paradigm, that human behaviour and organisational systems are often better studied holistically, allowing all factors to be considered for a more complete understanding to be gained. The aim of the research for this thesis was to develop an *ideographic body of knowledge* (Guba, 1985, p.85). The emphasis therefore was on explaining and understanding the pattern of ideas and behaviours observed, rather than the identification of general and universal laws.

It was proposed in Chapter 1 that, to achieve the stated aims of understanding the nature of SMEs that compete effectively on international markets, an inquiry approach, that followed the traditions of the naturalistic paradigm, was more appropriate than one following the traditions of the positivist paradigm. Taking such an epistemological stance was seen to require an inductive methodological approach, enabling an *'holistic'* exploratory inquiry, for a more complete understanding of the subject and the construction of a substantive theory.

This chapter evaluates the methodological approach taken in this thesis. It discusses the appropriateness of deductive and inductive methodologies, the application of grounded theory and the debate as to the appropriateness of quantitative or qualitative data collection methods. The chapter then goes on to give an account of the research strategy and methods used in the collection and analysis of data underpinning the development of this thesis. The issues and dilemmas that faced the author in each section of the research process are identified and the choices made justified.

Methodological Approach

Deductive v Inductive Research Methods

Some research phenomena lend themselves to investigation through the use of, principally, deductive research methodologies where the issues may be clearly defined and analysed through the testing of specific hypotheses. This, as was suggested in Chapter 2, has been the tradition in exporting marketing research. In deduction, a conceptual and theoretical structure is developed, prior to testing through empirical observation. Hypotheses regarding causal relationships are generated and are tested against empirical data. Deductive research therefore, aims to test existing theory. Inductive research on the other hand aims to generate new theories. Inductive research involves moving from a position of observing the empirical world to the construction of explanation and theories of what has been observed (Gill & Johnson, 1997). This is not meant to infer that research in the inductive tradition is necessarily concerned with reinventing the theoretical basis of a discipline. Inductive research seeks to allow theories to *emerge* from the analysis of the data collected, rather than fit the data collected into existing theories and concepts. Glaser (1992) emphasised the necessity of not allowing extant theory to *force* explanations onto the data, but letting the data itself be the main influence in theory development. Thus the starting point for inductive theory development is the data itself. However, this research study, as is true for any study, did not start with a blank piece of paper but built on the knowledge of the author, gained from her own experience, the experience of others and the extant literature.

Gummesson (2000) referred to such knowledge as *preunderstanding* (p.57) and suggested that in a research study the researcher moved from a position of pre-understanding to one of understanding through the development of improved insights gained via the analysis of data and theory development. A lack of pre-understanding may well necessitate the researcher becoming involved in time consuming tasks to develop the necessary knowledge base to generate meaningful interpretations of the data collected. On the other hand pre-understanding could serve to block theory development if the researcher is closed to certain aspects of the data collected, by allowing herself to be influenced by the prejudices developed from previous experience. Thus the concept of pre-understanding incorporates not just the previous knowledge gained but the attitude and commitment of the researcher to the integrity of the research process.

The aim in this research study was to use the pre-understanding of the author to enhance the depth of the understanding gained, but to ensure that theory development was allowed to emerge from the data rather than forced into categories by preconceived notions. There was a perceived need, therefore, to employ data collection methods that generated in-depth and open focus insights from the research sample. From these empirical observations, generalisations were made to explain the observed social processes, and, hence, the beginnings of inductively derived theories. It is argued that such theories could then be perceived as being grounded in the data (Glaser & Strauss, 1962; Corbin & Strauss, 1990 and Glaser, 1992). The application of grounded theory was important in achieving the aim in this study of gaining meaningful insights into the nature of the firms studied. The application of the grounded theory approach allowed the author to move from the position of pre-understanding to a position of understanding, whilst overcoming the pitfalls identified above. How the application of grounded theory allowed the author to achieve this will be further explored in the next section

Grounded Theory

According to Gill & Johnson (1997), within the inductive tradition, explanations of social phenomena need to be grounded in observation and experience. In grounded theory, data analysis and synthesis happen simultaneously rather than sequentially. This is because the methodology is based on the process of discovery rather than the measurement of units (Connell & Lowe, 1996). Theory therefore, as discussed above, evolves during the research process itself. Goulding (1999) observed that traditionally grounded theory has been used for theory development in areas where little research has been undertaken. However, she suggested that it could be equally of value, "to provide a fresh slant on existing knowledge" (p.867).

It was in this vein that the tradition of grounded theory has been applied in this research study. Thus, as stated above, it was decided by the author, that grounded theory offered

the possibility of inductive theory development, ensuring that the understanding of the research issue was truly derived from the perspective of the respondent. There are three vital characteristics of grounded theory, which explain how this can be achieved.
Firstly, it uses the process of *analytical induction* (Glaser, 1992). This means, rather than review the substantive literature first, the author integrated the substantive literature at the time when a particular stage in the inductive process was complete. The process of analytical induction led the author into a number of interdisciplinary areas which was vitally important in the process of seeking explanations as to the processes observed. This did not mean previous theories, as discussed in Chapter 2, were necessarily rejected. It did mean, however, that they did not constrain the research process in any way. Apriori theory was used in the development of the pre-understanding (Gummesson, 2000) of the research topic by the author. This pre-understanding was then used to inform the next stage of the research process.

Argyris (1977) referred to pre-understanding as a person's "theories in action". These theories in action formed the basic assumptions as to the key relationships of the actors in any inquiry. In naturalistic inquiry it is important that such theories be actively confronted and the underlying assumptions questioned. Failure to do so condemns the researcher to being "prisoners of their own theories" (Argyris, 1977, p. 119).

It is by confronting such assumptions that the naturalistic inquirer filters out preconceptions. Erlandson et al (1993) suggested that researchers following the traditions of naturalistic inquiry must assume a position of humility: "In the face of how little he or she knows in comparison to how much there is to be known" (p.20).

Thus in this thesis, the development of a pre-understanding of the topic, informed the research process. However, the author has endeavoured to ensure an open-mindedness and a posture of humility to help filter out pre-conceptions and confront her own basic assumptions. Gummesson (2000) discussed the need for any researcher to have a dual personality " able to balance on the razor's edge, use their pre-understanding, but are not its slave" (p.65). Thus this author has tried to use her pre-experience to enhance the insights from the data, but has taken care against preconceptions influencing the analytical process.

The second characteristic of grounded theory is that data collection and data analysis occur simultaneously. A continuous process of interpretation and discovery shaped the ongoing data collection for this research study. Skrtic (1985) saw this issue as being at the heart of understanding the value of grounding theory development in the data. In the study under discussion, data analysis, as will be explained in more detail later, was an ongoing process that happened at a number of different levels, for different purposes. It occurred within an interview and from interview to interview in order to guide subsequent data collection. It also occurred after each stage of the research process to help organise and structure the data analysis itself. Finally, both within case and across case analysis was undertaken in the process of reporting the data. Thus the process of analytical induction that led to the development of inductively derived theories was an iterative process of data collection and simultaneous data analysis. Gummesson (2000) referred to this iterative process as the *hermeneutic* spiral (p.70), whereby the knowledge gained at each stage of the process formed the new level of pre-understanding on which the understanding sought in the next stage is built. Thus, as the research study progresses, the researcher moves to new levels of pre-understanding.

In the research study, the first level of pre-understanding gained through previous experience led to the recognition of the need for such a study. The understanding gained from reviewing the extant literature formed the new level of pre-understanding which informed the research design. Likewise, the understanding gained from the initial interviews formed the basis of pre-understanding on which the longitudinal study was developed.

Finally, the aim of grounded theorists is to discover the basic social processes contained within the social structures created. As such, it can be effective in understanding the social processes within an organisation and help clarify and conceptualise behaviour patterns (Connell & Lowe, 1996). The aim of this thesis was to develop an understanding of the nature of SMEs that compete effectively on international markets. The understanding of the social processes and the underlying structures was integral to the achievement of this aim.

Building an empathy with the person researched was necessary, therefore, to fully understand the behaviour patterns observed. Empathy is very much related to the doctrine of *Verstehen* (Patton, 1990, p.56), which is rooted in the traditions of phenomenological methodologies and qualitative enquiry. The verstehen tradition stresses the importance of the informant as the primary source of data and understanding the research subject from the person's own viewpoint by building an empathy with them. Thus the researcher is studying the reality as perceived and understood by the research subject not the researcher herself (Patton, 1990).

McAuley (1985) posits that one of the key differences between the inductive and deductive traditions is the loci of the researcher. The deductive tradition necessitates the researcher making a claim to taking an objective stance, at a distance from the research subject. In the inductive tradition the researcher is a part of the study itself. The challenge to the researcher therefore in undertaking the process of analytical induction is to make the switch from a position of empathy with the research subject, to theory in seeking an understanding of the behaviours observed. This, according to McAuley (1985) requires, "a high degree of development of self knowledge, an ability to identify in the self and momentarily hold still personal judgements and cultural signposts"(p.295). It is through this awareness of oneself that the hermeneutic process of interpretation and understanding that is meaningful and relevant is developed. The strength of the grounded theory approach was the validity gained from the close linkage of theory development with the empirical evidence gathered. Glaser (1992) argued quite strongly that central to the aims and principles of the grounded theory tradition was the interpretative, contextual and emergent nature of theory development.

This, interestingly differed from the further development of the grounded theory approach by Strauss & Corbin (1990) which emphasised the complexity of the coding and analytical procedures as the central component. This is an important distinction. In following the naturalistic tradition it was important to the author that the data drove the analytical process, not a pre-determined coding system. As such, this research study followed in the tradition of the principles more associated with Glaser (1992). Theory development was viewed as having evolved during the research process as a result of building an understanding of the research subject through an ongoing process of data collection and data analysis.

In using grounded theory, Corbin & Strauss (1990) suggested that researchers needed to be wary of the issues discussed, particularly the forcing of theoretical explanations from the data and the pre-experience of the researcher acting as a block to conceptual analysis.

It was found by this author, that the problems that did arise were more to do with the amassing of a wealth of data that was rich in detail, but lacking in clarity, when everything was included. Similarly, there was a concern that data described the phenomenon being researched, but perhaps had little applicability to another context. In this study, as will be discussed later, a number of measures were taken to ensure the trustworthiness of the findings.

Data Collection Methods

A deductive approach has traditionally employed a quantitative approach to research design. This emphasises experimental design and the quantitative measurement of criteria. Quantitative research methods are most applicable to situations where information is being gathered from a large number of people, using a limited set of questions. It allows a researcher to build a broad and general picture of a situation by aggregating the data and carrying out statistical tests to facilitate comparison across a number of sub samples (Patton, 1990).

To ensure validity, therefore, the researcher must ensure "the research instrument is administered in an appropriate, standardised manner according to prescribed procedures" (Patton, 1990, p.14).

Inductive theory building lends itself much more to the philosophy and assumptions underlying qualitative research. In qualitative research "the researcher is the instrument" (Patton, 1990, p.14). Qualitative research employs data collection instruments that generate in-depth and open insights from small samples, giving the researcher more scope to explain the actions of the subject being researched by understanding the subjective dimensions underlying their behaviour. "To be objective is to be cold and distant ...(*whereas*) to be subjective is to be aware of the agency, that is of action. The purpose of qualitative research is to get at the world of the agent or subject"(Maykut & Moorehouse, 1994, p.20).

Patton viewed qualitative methodologies as sharing three fundamental characteristics: a holistic view, a philosophy of naturalistic enquiry and an inductive approach to data analysis. This, essentially, means qualitative methodologies seek to understand the *whole phenomena* being explored. The qualitative researcher will not look for linear effects and cause and effect relationships but try to explain the phenomena being studied in terms of their complex interdependencies and how these contribute to the whole. This requires studying situations as they unfold *naturally* and being open to whatever emerges rather than trying to fit the data into a set of predetermined outcomes. It is by the researcher immersing herself in the detail of the data and exploring the varying dimensions and interrelationships identified through inductive analysis that *inductively derived theories* emerge, grounded in the data from which they arise.

It is for these reasons a qualitative approach to data collection was seen to be consistent with the aims of this thesis and so, appropriate to the research strategy undertaken. In qualitative research there are a number of possible ways to collect data. Observation, participating in the setting, diary-keeping and interviewing are some of the more common techniques.

Participating in the setting usually enables a great depth of understanding to be achieved in the research as it allows the researcher to get very close to the subject of the research. The origins of this technique are in the field of anthropology where the researcher immerses herself in the natural setting of her research subjects (Coffey & Atkinson, 1996). This enables rich qualitative data to be obtained, which is usually unobtrusive and able to penetrate the informal aspects of work. As the information is not pre-structured the participant observation lends itself to generating information from the informant's own perspective. However, the strength is also a weakness in that the researcher may become so immersed in the culture of the organisation that she is unable to take a dispassionate view of events. Thus in referring to the earlier discussion (McAuley, 1985), participant observation would have allowed the author to build the necessary empathy with the research subject. It was, however, questioned whether such an approach would lend itself to the process of analytical induction and allow the author to make the necessary switch from empathising with the research subject to theory development.

Observation techniques, without participation, have the advantage of remaining impartial to a situation, but, acting purely as a spectator would not allow the researcher to interact with the subject and so would fail to gain insights into the important dimensions of the study (Gill & Johnson, 1997). Observation without participation would not allow the involvement of the research subject themselves in the research study and so fail to enable the researcher to study the reality as perceived and understood by the research subject themselves (Patton, 1990). The use of diaries may overcome these limitations. However, the main criticism of using such techniques as diaries is that they are perceived as being highly descriptive and so do not help to develop an understanding of the dimensions of the managers' roles that they themselves do not perceive as central to their activities.

Methodologically, therefore, none of the above approaches were perceived by the author as lending themselves adequately to the grounded theory approach which, as discussed earlier, was viewed as a central component of the research strategy.

The other method of data collection that may be used is interviewing. Interviews may be directed to individuals or groups. They also vary in length, content and the demands made on the interviewer. Some are highly structured, where a questionnaire has to be strictly adhered to, to enable comparability of findings; others are unstructured, seeking an in-depth understanding of the research subject (Gorton & Doole, 1991). According to Gill & Johnson (1997), a highly unstructured in-depth interview has several advantages over a structured interview. It enables the researcher to elicit sensitive data, it means comparability is possible under broad headings and it gives a greater overall depth of insight. It also allows the respondent to introduce material not anticipated by the interviewer and allows the interviewee to determine the direction of the interview. The disadvantages are, predominantly, that it is time-consuming, strict comparability is difficult and samples are smaller, which could limit the generalisability of findings.

Between the two extremes is the semi-structured interview, which could range from a *managed conversation* to an interview with a combination of *closed* questions with predetermined responses and *open* questions to allow for the generation of soft data. In a managed conversation the interviewer will have an outline of the issues to be covered in the interview but will be relatively non-directive in eliciting responses. This allows the research subject to be explored from the perspective of the respondent.

Interviews can take the form of group discussions or individual interviews. The advantage of a group discussion is that they allow open discussion, the development of ideas and a detailed exploration of issues being investigated. A questionnaire may be used but usually the discussion is free-ranging. The spontaneity and stimulation of the group situation motivates a high number of creative responses and is particularly useful in generating ideas. Interest in the topic is more easily stimulated in group situations and respondents often feel more secure, allowing themselves to relax and become more fully involved in the research topic (Gorton & Doole, 1991). However, data collected can be difficult to analyse and the direction of discussion requires specialist skill.

It was decided that the semi-structured interview be the main method for data collection. The collection of primary data for this study was by; semi-structured group discussions in the early stages of the research process; semi-structured interviews in the initial interviews of 25 firms, and a series of in-depth managed conversations carried out with the six firms studied longitudinally. This type of data collection method allowed the author to fully explore the topic from the respondents perspective and gave her the flexibility to employ a variety of modes in collecting the data. This enhanced the dependability of the findings and allowed the data to be generated from a multiplicity of perspectives. Such triangulation enhanced the credibility of the study by ensuring the information collected was constantly verified by another source, either from other respondents or at another time in the subsequent interviews. The advantage of triangulation is that the strengths and weaknesses of the different data collection vehicles are moderated and so trustworthiness of the findings strengthened (Gill & Johnson, 1997). The data collection methods will be explained in the following sections.

Group Discussions

Group discussions took place at the very early stages of the research process. These consisted of small samples of SMEs, consultants, academics, and support agency representatives. A total of four group discussions took place. The details of the participants are given in Table 3.1.

Table 3.1: Details of Participants of Group Discussions

Date	Academics	SMEs	Government support agency representative	Private sector consultants
May 1996	2	2	1	2
June 1996	2	2	1	0
July 1996	1	2	1	1
September 1996	2	2	2	0

The aim of the group discussions was to help the author develop further the pre-understanding of the issues to be explored in the research study. The outcome of the discussions was inputted into the development of the criteria for sample selection and the design of the research instrument used in the initial interviews. Discussions incorporated a wide range of issues, including perceptions of international competitiveness, international marketing processes, key capabilities, research systems, supply chain management, customer service operations, strategic planning processes and marketing capabilities.

The Initial In-Depth Interviews of 25 SMEs

Initial in-depth semi-structured interviews were carried out across a sample of 25 SMEs identified as competing effectively on international markets in the autumn of 1996. The rationale for sample selection will be explained in the next section.

The aim of these interviews was to generate data from which the research themes, to be pursued longitudinally, could be developed. This enabled the author to establish the boundaries for the research study, from the perspective of the individuals themselves, rather than through any pre-designated process.

The findings from these initial interviews proved valuable in that it generated a large amount of data from respondents who represented a number of different types of firms in the South Yorkshire region. However, there were important limitations. It was difficult to seek explanations as to why things happened. The interviews could only give a snapshot of the given situation at a particular moment in time, whether the factors identified held true over a period of time was not possible to ascertain. Thus using the iceberg analogy (Gummesson, 2000), such interviews only allowed the researcher to gain an understanding of between ten and fifteen percentage of the situation. To understand the full situation it was necessary to get closer to the research subject "by getting under the surface, mobilising more resources and getting more involved" (Gummesson, 2000, p.35).

Studying a small number of firms longitudinally it was decided, would enable this to be achieved.

Six Firms Studied Longitudinally

A small sample of six firms were studied longitudinally to analyse the behaviour of firms and to seek explanations as to the nature of firms that effectively competed internationally. Longitudinal studies enable the researcher to take a holistic view of the research subject. The research can focus on change processes in the firm over the time period of the study within the broader social, economic and political context surrounding each of the firms being studied. It also allowed the gathering of 'time series data', which was not possible in the initial interviews (Easterby-Smith, Thorpe & Lowe, 1991). The initial interviews could only seek an understanding of the post-rationalisation of the intentions and the activities of the respondents. Gathering of time series data through a series of semi-structured interviews taking the form of managed conversations, enabled the author to examine the intentions of a firm, the process it underwent and the outcome of its actions. This enabled the data collected to be comprehended and synthesised in relation to the context from which it emerged.

Studying the firms longitudinally was a central component in the research strategy of this thesis, allowing the author in the *verstehen* tradition to build an empathy with the research subject through the personal contact built up over a period of time (Patton, 1990). Building an empathy with the people within the firms being researched was essential, enabling the author to develop the ability to understand the totality of the position, feelings and experiences of the research subject, in the context of their surroundings. A contributory value of this thesis as previously described, is that the theorising is grounded in the data itself, through the process of analytical induction.

The data collection methods chosen allowed the researcher to explore the themes identified and enabled a dynamic and holistic view to be built of the behaviour of the firms studied over the duration of the study. An aim of this thesis was the development of insights into the dynamic nature of the firms that competed effectively over a period of time, studying the firms longitudinally was therefore essential. In the following sections, the choice of sample, the questioning techniques, instruments and methods used to analyse the data will be examined.

Sample Selection

In selecting the sample of firms, a number of issues needed to be addressed. By what criteria should the sample of SMEs be selected; how should access to the firms and their co-operation be gained and by what criteria should the firms, to be studied longitudinally, be chosen?

The sampling process was undertaken in two stages. Firstly, firms who were viewed as competing effectively on international markets were selected for the initial interviews. Secondly, a sample from these firms was selected to study longitudinally. The question as to what was an appropriate sample, was essentially a trade-off between breadth and depth. In qualitative research the term *purposeful sampling* (Patton, 1990, p.169) is used to explain the logic that underpins the sampling approach used. The logic of purposeful sampling argues that one can only learn about the issues of central importance to the purpose of the research if one samples units for research that are rich in information. The objective of the initial interviews was to generate data from which the process of analytical induction could commence, and themes to pursue longitudinally be identified. It was important, therefore, to select firms who were able to illuminate the study of how SMEs compete effectively on international markets.

In Chapter 2, the debate as to what constituted success, and what criteria were used by previous researchers to measure success, was evaluated. In the group discussions held prior to the initial interviews with SMEs, the issue of how firms assessed their own effectiveness on international markets was debated at length.

There were several conclusions drawn from these two sources which had implications for sample selection. Firstly, that firms evaluated performance on international markets on several levels and, therefore, research investigating SME activity on international markets had to investigate success both at the level of the firm and the level of the venture, as both levels of activity made contributions to international competitiveness. However, as was discussed in Chapter 2, it was recognised that if the firm was to succeed in the long term, the success of a particular venture would contribute to the survival of a firm in a competitive environment (Cavusgil & Zou, 1994 and Styles, 1998). Therefore, in evaluating international competitiveness, the contribution of those ventures to a firm's competitiveness over a period of time needed to be assessed. Secondly; the expectations of the management team of the firm were integral to a firms perception of success and, therefore, an assessment related to the aims and objectives of the firm over a period of time, was also necessary.

The conclusions of the group discussions were consistent with the author's conclusion in Chapter 2, in that the sample selection process required a composite measure to capture the multidimensionality of international competitiveness (Saimee & Walters, 1991; Cavusgil & Zou, 1994; Rao & Naidu, 1992 and Matthyssens & Pauwels, 1996). This does differs from some of the studies discussed in Chapter 2, which were criticised for their tendency to use individual measures as the sole criteria for evaluating performance.

The study carried out by Doole, Stokell & Lowe (1996) was used as the sampling frame. In this survey, a stratified proportional representative sample of 758 SME exporters with employees of less than 250 employees was surveyed in the South Yorkshire area of the U.K. The sample for this survey was drawn from the export databases of the local Training and Enterprise Councils and Business Links. A total of 224 useable questionnaires were returned. The objective of the study was to generate data on the export-marketing activities of SMEs in the region of South Yorkshire.

Respondents were asked a range of questions investigating their export marketing activities, the strategies they pursued as well as their attitudes and opinions as to the opportunities and problems competing internationally presented. The database built from the responses to this study was interrogated through a number of sequential questions, to select the sample for the initial interviews. The questions incorporated the following enquiries of the database:

- Competing internationally for at least five years
- International sales accounted for more than 25% total turnover
- Consistent record of increasing international business over the previous five years
- Perceived profitable margins on international sales
- Proactively developing new international markets
- Evidence of successful international developments

These initial enquiries resulted in a list of fifty firms. Further inquiries were then made to build an understanding of the possible firms to be included in the sample. Opinions were sought from the participants of the group discussions with knowledge of the firms in their locality. Other sources included local press, published company information as well as telephone conversations with potential respondents to ascertain their suitability for inclusion in the sample. A key criterion in choosing the final sample was to ensure that within the resource constraints, there was the maximum variation possible. The aim of the strategy of purposeful sampling was to enable the study to capture and identify the central themes of the research, whilst ensuring heterogeneity of the cases being investigated. The final sample of 25 firms was chosen to ensure maximum variation (Patton, 1990, p.172), firstly, as to the size of the firm, secondly as to the industrial sector to which they belonged and thirdly, as to the spread of international markets in which they operated. Details of the firms included in the sample for the initial interviews are given in Appendix I.

It is suggested that a sample of 25 firms, selected on the basis described, was small enough to enable the study to generate high quality and detailed findings, but large enough to identify important shared patterns across the firms studied, from which, given the heterogeneity of the sample, the research themes to pursue in further depth could be derived.

Longitudinal Sample

The notion of purposeful sampling was applied to the selection of firms to be studied longitudinally. It was important, therefore, for the author to be clear as to what the purpose of the sample was. The objective of studying firms longitudinally was to build a rich and detailed understanding of the behaviour of firms competing effectively internationally over a period of time. This meant that, in selecting the sample, the author was principally concerned with how the individual firms selected would contribute to this understanding, rather than whether the sample was particularly representative of SMEs in South Yorkshire.

In selecting the sample of firms to study longitudinally, the author had the benefit of the knowledge and understanding gained from the initial interviews. This understanding was drawn upon in establishing the sample. The selection was based upon the potential information richness (Patton, 1990, p.181) of firms in light of the emergent theory. Information richness was defined by the research themes identified in the analysis of the initial interviews. As will be discussed in Chapter 4, three research themes were identified to pursue longitudinally:

- the role of strategy development in competing effectively internationally
- the role of relationships in competing on international markets
- the dynamic processes through which firms engendered competitive effectiveness on international markets over a period of time

Firms selected for inclusion in the sample were seen to be a source of rich information of the key research themes and showed evidence of development in these areas. They were, therefore, viewed as, potentially, providing rich live case material yielding interesting information over the time period of the study.

> "The validity and meaningfulness and insights generated from qualitative enquiry have more to do with the information richness of cases selected and the observational /analytical capabilities of the researcher than with sample size"(Patton, 1990, p.185)

As stated previously, building empathy with the managers within the firms being researched was regarded as essential, if the author was to understand the totality of the position. It was essential to build an understanding of the feelings and experiences of the research subject within the context of their surroundings. To build such a close relationship with the firms meant only a small sample size was feasible, as each case studied would generate a vast amount of data. A sample of six firms was selected to study longitudinally.

Table 3.2: The Sample Selected for Longitudinal Study

Firm	Turnover	Employee Size Band	Sector
B F Rail	£1.5m	10-24	Construction & Railways
Flybait	£1.3m	10-24	Fly fishing tackle
Williamson	£14m	100-199	Knives & Cutlery
Stadium	£20m	200 +	Aerospace / medical instruments
Thompson	£18m	100-199	Special Steels
Fox	£2.8m	25-99	Industrial Safety Lamps

In Chapter 5, the reader will be introduced, in some depth, to each of the six firms. For reasons of confidentiality,each of the firms was given a pseudonym. The strategic development of each of the firms over the period of the study will be explored, and the reasons for their inclusion in the research study elaborated.

Question Techniques

The objective of the initial interviews was to explore the capabilities of SMEs viewed as competing effectively on international markets. Thus, the task was to generate data in this area to identify themes to be pursued longitudinally. A questionnaire (see Appendix II) was used at this stage of the research, as it was felt that this approach facilitated the generation of data on a wide range of topics and allowed the exploration of the respondents feelings and opinions, as well as eliciting descriptions of experiences, behaviours and activities (Patton, 1990).

The questions were designed to give an understanding of the firm's activities and behaviour on international markets. A range of open-ended questions were asked to generate free and open discussion relating to the company itself, the markets in which the firm operated, the strategies they pursued, management attitudes and aspirations, perceptions of risk and critical events in the development of the international market portfolio. The questionnaire was implemented in an open and unrestricted manner. Discussion was respondent-led in all question areas. All interviews were taped and fully transcribed. The transcriptions formed the main vehicle for the subsequent analysis of the data.

Some closed-ended questions were asked. Whilst closed-ended questions are commonly associated with quantitative data collection methods and deductive methodologies, if combined with qualitative research methods they can enhance the validity of the findings (Erlandson et al, 1993). Used in a preliminary survey, closed-ended questions can help to validate the inferences from the open-ended questions, and provide background information to facilitate further in-depth investigation, and so improve the quality and efficiency of subsequent interviews.

Respondents were asked to assess their actual behaviour with regard to a number of export marketing activities. The aim was to collect non-judgemental data from the perspective of the respondent, on a range of possible processes and practices that could be undertaken by the firm and to seek their assessment of the role of these activities in their international marketing activities. The subsequent analysis of the data generated on export marketing practices and processes resulted in a number of valuable insights into the activities and opinions of SMEs which proved significant in planning and developing the research strategy for the firms that were followed longitudinally. As well as being able to collect behavioural data, the discussions also signalled potential change processes and critical events that could be interesting to follow longitudinally.

The intention, in studying the firms longitudinally, was to explore inductively the themes identified in the initial interviews and investigate how these capabilities manifested themselves overtime. In-depth discussions took place with each of the firms selected, at approximately six to nine monthly intervals throughout the period of the study. The interviews in the firms studied longitudinally took the form of managed conversations. Discussions focused on building stories around the change processes and the critical events that occurred in the international development of the firm over the period of the study. Coffey & Atkinson (1996) suggest that stories and narratives told by respondents provide a useful mechanism for understanding how the respondents themselves make sense of their own set of experiences. In studying the firms longitudinally, the collection of narratives and stories enabled the author to collect data as the story unfolded. This provided the author with a starting point for the analysis of the data. The stories built were revisited and re-explored from a number of perspectives as the analytical induction process unfolded.

For these reasons, it was felt that the critical-incident technique offered potential in enabling the researcher to collect the data to build the stories and narratives over a period of time. The critical-incident technique allowed for the intense probing of the respondent, especially where step changes in the organisation were being made (Mintzberg, 1973). Flannagan (1954), proposed the technique, describing it as "a set of procedures for collecting direct observations of human behaviour" (p.354).

These procedures are, essentially, for collecting observed incidents which have special significance and meet defined criteria. A critical incident is defined as being "any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act" (Flannagan, 1954, p.327).

Bitner (1990), in using this technique to study service encounters, defined a critical incident as "one that contributes or detracts from the general aim of the activity in a significant way" (p.73).

She argued that the incidents studied should be discrete and incorporate sufficient detail to make observation feasible. They should also have three important qualities:

> "the actions of the participants should be sufficiently complete to enable inferences and predictions to be made about the participants; the intent of the participants actions should be clear; and the consequences of the actions should be definite enough to ensure there is no doubt concerning the effect of the actions concerned" (p.75).

This technique has been used by qualitative researchers to great effect, particularly in conjunction with in-depth interviews (Easterby-Smith, Thorpe & Lowe, 1991). Use of the critical-incident technique in this study enabled the author to build a number of stories by investigating particular incidents and examining how they developed over time. The technique was also useful in helping the respondent to focus on key developments in the firm, to examine the problems they encountered in some detail and to illustrate, quite specifically how that problem was overcome. Perhaps more importantly, the stories enabled the author to assess the key events in change processes rather than merely rely on the post-rationalisation of the respondent. The objective, as articulated by Chell (1998) was to "gain an understanding of the incident from the perspective of the individual, taking into account cognitive, affective and behavioural elements" (p.56).

At each visit the respondent was asked to consider three types of critical incidents which may have occurred in the intervening period. Firstly, typical incidents which were representative of the way the firm operated, secondly, negative incidents, which perhaps disproved expectations and thirdly, exceptional incidents, ones that were unusual and different from the normal practices of the firm. At each visit the respondent was asked to keep a number of "critical-incident forms" in their desks (see Appendix III) to jot down notes regarding incidents as they happened in the period between visits. These notes would consist of what the incident was, what led up to the incident, what was the outcome and any subsequent actions to which the incident led. These forms were then used as a basis for discussion at the next meeting. In three cases, these forms were carefully completed. In the other cases attention to them was more sporadic. However, even in these cases it was evident the forms had been looked at prior to the interview and so enhanced the mental preparation of the respondent.

Interviewing

A major issue, to be faced in interviewing, is that of gaining access to those firms selected to be part of the sample and gaining their co-operation. In the Doole, Stokell & Lowe (1996) survey, the firm's willingness to co-operate with any further studies was ascertained. The fieldwork for the study was financially supported by the Department of Trade and Industry for Yorkshire and the Humber, and actively supported by the Chambers of Commerce and Training & Enterprise Councils of South Yorkshire. This proved to be a motivating factor in gaining the co-operation of firms, who perceived the study as having a high level of importance attached to it.

The author was concerned that gaining the co-operation of firms to take part in longitudinal research would prove problematic. Firms had already given their time in the initial interviews and to study the firms longitudinally would require a considerable time commitment. Surprisingly, all the firms contacted were willing to take part. This was due to two reasons. Firstly, following the completion of the initial interviews, a summary report was sent to all respondents. This discussed the main findings but also thanked the respondents for their co-operation and explained the intention to take the research further by studying a small sample of firms longitudinally. Thus, when the firms were contacted, they were already aware of the outcome of the first stage of the research and understood the objectives of the future research and were more than willing to offer their reflections as to the appropriateness of the findings so far.

Secondly, a number of respondents remarked that they had found the first interview interesting and useful to them in helping them to reflect on their international development, something, as small firms, they rarely had time to do. Thus, in agreeing to co-operate in longitudinal research, the respondents felt they were also gaining the opportunity to sit back, reflect and think about their firms in ways they had not done before.

Lincoln (1985) suggests this is consistent with the co-operative nature of the naturalistic paradigm and argues that it is perfectly legitimate to engage in a negotiation process with respondents about research results. "Research results are not to be ripped off like cultural artefacts from unsophisticated primitive people. Like artefacts, they belong to those who made them and are to be shared, if at all, in some mutually agreeable fashion" (p.153).

This principle of checking the findings and their interpretation with the respondents after each interview continued throughout the study.

The interviews of the sample of firms studied longitudinally took the form of *managed conversations*. The author had an agenda of issues to be covered during the course of the interview with a particular firm. This agenda was based on the outputs of the previous interview and the issues, stories and change processes that were being followed with each individual. However, the interviews did tend to be free ranging and directed by the respondent.

In all cases the director / manager responsible for export sales was interviewed. In smaller firms this tended to be the Managing Director, in others the director / manager for export sales. In a number of cases more than one respondent was interviewed. These were either the Managing Director with the export sales director / manager (Fox) or, in two cases, the two directors responsible for exports. In one case (Stadium), the export sales were organised by product division (aerospace & medical), whereas in the case of Williamson, the original respondent left the company.

Generally, each interview lasted approximately two hours, sometimes longer. The firms were visited approximately every six to nine months, the initial interviews were conducted in the autumn of 1996, the final interviews taking place in February 1999. Each interview conducted was taped and fully transcribed to enable full qualitative analysis. Documents relevant to the research were also collected from the firm at the time of the interview. Additional documents were collected as appropriate.

After each interview a "contact summary form" was completed (see Appendix IV). This summarised the main issues discussed, the themes pursued, notes on any speculations, hunches and reflections arising from the discussions. This ensured that salient issues of each interview were captured and remembered.

Analytical Procedures

In analysing data the qualitative researcher has three major dilemmas to resolve. The *sense-making dilemma*; how to represent data - qualitative data is acknowledged as being potentially contradictory and messy, and so it is important that some kind of mechanism is designed to manage the data collected. The *representation dilemma*; how to represent the different opinions, as a qualitative researcher must ensure the fair representation of all opinions. Finally, the *legitimisation dilemma*: how does a text legitimise itself, if a qualitative approach is to be satisfied with local, pragmatic rationales for naturalistic interpretations?

In answering these dilemmas, the analytical procedure used followed the sequence of steps recommended by Miles & Huberman (1994). They defined data analysis as consisting of three concurrent flows of activity: *data reduction, data display, and conclusion-drawing and verification* (p.9). These steps were seen as useful in resolving the dilemmas identified above.

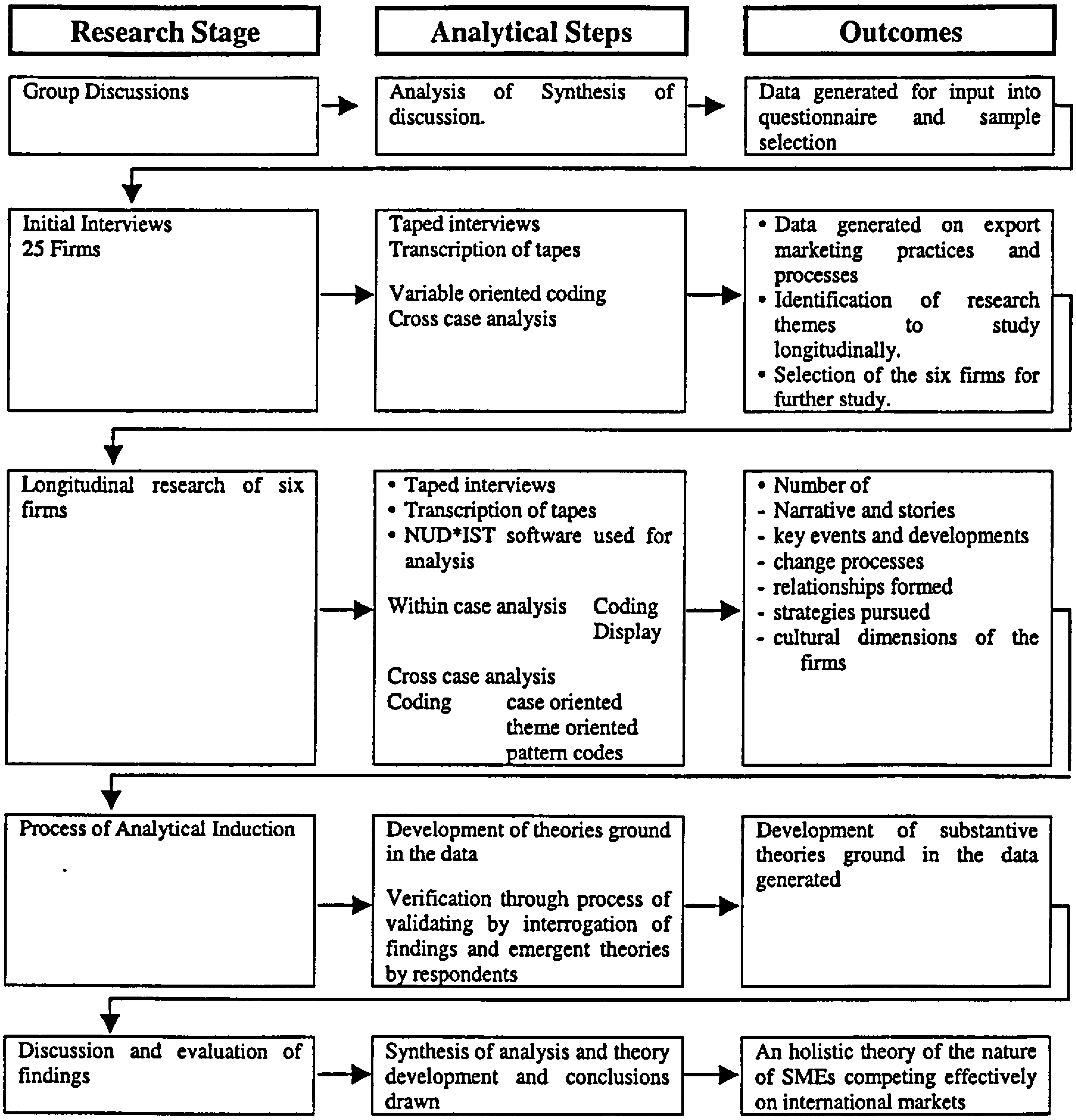
Unreduced data, in the form of original transcripts, is too cumbersome for the data processing abilities of most researchers. This was certainly found to be the case by the author in analysing the data from the initial interviews. To facilitate the analytical process, use was made of the NUD*IST (Non-numerical, Unstructured data by supporting processes of Indexing Searching and Theorising) software for qualitative data analysis of the firms studied longitudinally. NUD*IST was enormously helpful in the three ways. Firstly, in reducing and organising the data, NUD*IST enabled the author to easily store the data and manage the various categories of data. Secondly, it helped in the display of the data by allowing it to be coded and retrieved in a variety of ways. It also allowed the text of interviews to be searched by key words or phrases. Finally, it helped in the reporting of the data by providing access to memos, quotes and the building of reflections as the analysis progressed. Thus, it made the vast amounts of data, collected in the study, much more accessible and easier to manage. It therefore made the analytical process of representing the data and conclusion-drawing a much smoother process. Finally, by using NUD*IST the author was able to establish a full audit trail.

Critics have suggested that software packages such as NUD*IST lead the researcher towards reductionism and constrain analysis of qualitative data (Richards, 1997). Reservations have also been expressed that the use of software packages force the researcher to adopt set procedures and so result in the computer controlling the analytical process, not the researcher (Buston, 1997). The experience of this author was that the use of NUD*IST allowed me to manage the large volumes of data generated from the study much more effectively than had the analysis been carried out manually. It also meant it was possible to search the data and switch between data sets more efficiently and effectively than if I was relying solely on hard copies. The use of NUD*IST was more akin to a data management system than a data analysis system.

The downside, for the author, of using the software package was therefore not in terms of the outcomes, but more related to the time it took to learn the package and the time taken in preparing the raw transcripts for the NUD*IST software.

The steps taken in the analysis of the data is illustrated in Figure 5.

Figure 5: The Analytical Procedure



The following sections discuss how the author undertook each of the stages in the process of analysing the data and drawing conclusions from it.

Data Analysis

Data analysis for the 25 initial interviews was in two stages. Firstly using in-vivo codes, that is codes derived from the information given by the respondents, and secondly, by analysing the data generated from the closed-ended questions. A variable oriented approach to cross-case analysis then took place to integrate and synthesise the data, in order to capture the emergent themes based on the patterns and associations identified. Given the objective of the initial interviews was to identify themes of research interest to pursue longitudinally, this was thought to be more relevant than building up detailed case descriptions.

Data analysis for the firms studied longitudinally was also undertaken using in–vivo codes, as opposed to apriori codes. Apriori codes are determined prior to the analysis and more appropriate to a deductive methodology. In-vivo, or open, codes were used due to the exploratory nature of the research and to allow themes to emerge inductively from the data itself. Glaser (1992) stressed the importance of allowing the categories to emerge from the observations made in grounded theory. Bogdan & Biklen (1992) suggest that codes be centred around factors such as the setting and context of the interview, the different perspectives taken by the respondents, particular activities or events, and the social structures and relationships that become evident.

Erlandson et al (1993) refer to this process as *emergent category designation* (p.118). In naturalistic inquiry the meaning of the data can be determined by the context from which it arises. The issues raised during the course of the interview were often specific to the firm itself and to the story or development being discussed. Rigid usage of apriori codes, therefore, would have greatly restricted the analysis. Thus, the categories to which data was placed emerged during the analytical process. Some categories did change over the period of the study, codes were added as new insights emerged, extensions were made to the codes when returning to material previously coded and new data from the latest interview led to the emergence of new themes. Lincoln & Guba (1985) recommend that, as the analysis develops, researchers need to identify patterns in codes to move up to the next level of analysis and to provide a vehicle to summarise data. Pattern codes tend to centre on four aspects, themes, causes / explanations, relationships and emerging constructs (Miles & Huberman, 1994, p.70). This, essentially, was the author's way of organising the data. As the process of data collection progressed, reading the relevant theoretical literature and data analysis interacted. Categories then emerged from the data. It was, therefore, important to ensure that the designated categories allowed for the development of different incidents and stories emerging over the course of the study. The use of NUD*IST made this process much easier for the author. As transcripts were re-read and revisited new codes were easily added to the categories established and new searches undertaken to retrieve other relevant parts of the transcripts. Whilst the use of software packages have been criticised by traditionalists in qualitative research, it is equally becoming recognised that software packages such as NUD*IST support a grounded theory approach (Coffey et al, 1996 and Lee & Fielding, 1996). The facility such packages give the researcher to establish hyperlinks in the text and to code and retrieve with ease, make procedures possible that would be highly cumbersome to carry out manually.

Data Display and Writing Up

In order to display the data, interim case summaries were written as a result of the within case analysis and to engender the process of analytical induction and theory development (Miles & Huberman, 1994). Each case summary consisted of three parts. Firstly, a review of the findings - this consisted of a summary of the findings, together with an exploration of the themes and patterns which were beginning to emerge. Secondly, an examination of the quality of data to support the findings, for example illustrations of critical incidents, suggestions for re-analysis, and thirdly, the agenda for the next wave of data collection.

As the analysis progressed, memos were written by the author to help start the process of theory development:

> "A memo is the theorising write up of ideas about codes and their relationships as they strike the analyst whilst coding, it can be a sentence, a paragraph or a few pages it exhausts the analysts momentary ideation based on data with perhaps little conceptual elaboration" (Glaser, 1992, p.83).

The cross-case analysis was the final part of the analytical procedure, prior to the discussion of the findings and the drawing of conclusions leading to the theory development. The reason for cross-case analysis is to enhance and deepen the understanding and explanations derived from the within case analysis (Glaser, 1978). Another reason is to enhance the generalisability of the findings, although it could be argued that this is of little relevance in a naturalistic inquiry, where the unique contribution is within the specific context of the research.

The problem is, as Silverstein (1988) articulated:

> "researchers are faced with the tension between the particular and the universal; reconciling an individuals case's uniqueness with the need for a more general understanding of the generic processes that occur across cases". (cited in Miles & Huberman, 1994, p.173).

Whilst the need for cross case analysis was evident, the method of analysis to use for cross case analysis was less clear. In the analysis of the initial interviews, the choice was made to use a variable-oriented approach. This was suitable at this stage of the research where the aim was to identify research themes to develop longitudinally. The context of the variables and case history of the respondent was not so important.

This was not so in analysing the longitudinal data given the importance placed on the collection of data through critical incidents and the number of time-series stories built during the study. Using purely a variable approach could be useful in allowing the researcher to look for themes that cut across the cases, but in doing that, the dynamics of the stories told, and the context of the situation, may well be underplayed.

A case-oriented approach was seen to have equal difficulties. In selecting the sample efforts were made to include cases which were information-rich in terms of the emerging theory. Thus it was the themes, developments and events occurring in the subject area that were of prime interest, rather than the firm per se.

Ragin (1993) suggests that rather than think of either a case or a variable approach, it is probably more useful to think of a synthesised approach which "could allow analysis of parts in a way that does not obscure the whole" (p.300).

It is this approach that has been taken in this research study. The fund of stories collected through examining the critical events in the development of the firm was rich in detail and it was important that this richness be preserved. The objective, therefore, was not necessarily to write case studies but *thick descriptions* (Lincoln & Guba, 1985, p.125) of the stories and events followed. It is from these thick descriptions of the stories and events that the reader may understand the findings of the research and judge their applicability to other situations of a similar context.

Synthesis and Theory Development

As stated earlier in this chapter, the traditions of grounded theory were followed in the inquiry. This meant theory development was inductively derived through the iterative process of data collection, data analysis and reading a wide range of literature, in evaluating and synthesising the findings. Within the traditions of grounded theory the role of existing theory is important in sensitising the researcher to the relevance and significance of emerging concepts and explanations. Goulding (1999) suggests that it is only by drawing from the wider field of knowledge and theory that the conceptual leverage necessary for theory development can be achieved.

The remaining chapters in this thesis focus on the process of the comprehension, synthesis and the subsequent theory development within this research study. This was by no means a simple process for the author, nor was it the linear process of analysis, evaluation and conclusion drawing which may be implied in the logic of the final organisation of the chapters. The following chapters have had several iterations, and have taken various forms, before reaching their final state. Using the data as the base and the stories and narratives as the building blocks, the chapters were gradually built through the process of the comprehending the findings, re-analysing data, further evaluating the findings in the context of the relevant literature and then a further process of continuous reflection. Through this synthesis of analysis, conclusion-drawing and emergent theory development, a contribution to the understanding of the nature of SMEs competing effectively on international markets, was eventually constructed.

Verification & Trustworthiness

The intention of this research study was not to search for universal laws and deductively test their validity in a statistically representative sample. The objective was to seek explanations and deepen understanding to allow inductively-developed theories to emerge. The research carried out for this study followed the traditions of the naturalistic paradigm and aimed at the generation of a greater understanding of the subject and the construction of a substantive theory grounded in the data generated.

Lincoln & Guba (1985) suggest four criteria by which the trustworthiness of findings can be evaluated in a naturalistic inquiry: *credibility*, in terms of the truth value of an inquiry; *transferability*, addressing the applicability of the findings to other contexts; *dependability*, with reference to the consistency of methods used and *confirmability* which addresses the question of the neutrality of the findings.

Each of these criteria will be discussed in the context of the research methods used in this study.

Credibility

In terms of credibility, the strength of carrying out the study longitudinally meant that issues were not only identified, but also investigated further on subsequent visits. The process of analytical induction meant that data was continuously reflected upon. This allowed the emergence of issues, not immediately apparent, to be further explored on subsequent visits.

Guba (1990) commented that naturalistic enquiry is a process of discovery and verification and that, in trying to understand the real world, researchers moved in varying degrees from the discovery mode to the verification mode. This is reflected in the principles of analytical induction and the development of the grounded theory tradition. Data analysis and synthesis happened simultaneously as the research progressed, rather than sequentially as happens in deductive methodologies. After each set of interviews the data was analysed and synthesised and ideas generated. These findings and ideas then formed a part of the discussions at the next set of interviews. At each stage the emergent findings and theories were negotiated and validated through the process of relaying back to the respondent the findings of the previous stage:

> "What is discovered must be verified by going back to the empirical world under study and examining the extent to which the emergent analysis fits the phenomena and works to explain what has been observed" (Patton, 1990, p.60).

The substantive theory to emerge from this study, therefore, has been verified by being subjected to interrogation by the respondents themselves at each stage of the research. The final interviews held were an important conclusion to this process.

This is in keeping with the hermeneutic tradition which recognises that the outcome of the process of interpretation and understanding can be equally of value to both the researcher and the subject being researched. McAuley (1985) suggests an important element in the validity of the hermeneutic process is the investigation of the practical knowledge of the research subject and then "feeding it back to them *(the respondents)* through the meta-language of social science" (p.296).

Such a process cannot be undertaken without the full co-operation of the respondent firms. This was achieved in this study and enabled the researcher full access to the knowledge required. The verstehen tradition (Patton, 1990), which stressed the importance of understanding the research subject from the persons own viewpoint by building an empathy with that person was fully maintained in the research process. An important aspect of this was the continual feedback of the analysis of the findings to the respondents.

Thus, consistent with the principles of triangulation, data was cross-checked and interpreted from differing perspectives and was also gained by comparing information from respondent to respondent. Triangulation was evidenced through the use of different types of data collection methods (group discussions, semi-structured interviews and managed conversations), the collection of data at different time intervals, as well as the collection of data from other sources (for example, brochures, product catalogues, annual reports and press cuttings).

Transferability

The findings of this study refer to the specific context within which the study took place. The data generated was interpreted ideographically, in the context of the particulars of the firm, rather than in broad generalisations. There is, therefore, no claim by the author that the findings are a universal truth that can be generalised to all SMEs. There is, of course, a desire by the author, that readers of this thesis are able to apply the findings to other situations. The aim of *purposive sampling* was to maximise the range and depth of information gathered to enable comparisons to take place and to develop insights into the nature of SMEs competing internationally, which could then be applied by the reader to other contexts.

The development of the *thick descriptions* (Lincoln & Guba, 1985) of the themes, stories and events followed longitudinally enhanced this process. The resultant narratives provide the reader with the depth of information necessary to understand fully the context of the story and so interpret the findings of the study within their own parameters. This, Skrtic (1985) suggests, is important in enhancing the transferability of any findings. As the researcher cannot be aware of all the contexts to which research findings may be applied, diligence is needed in describing the context of any narrative, so the reader is able to judge the applicability of the findings to one's own situation.

Dependability & Confirmablity

Erlandson et al (1993) suggest the establishment of an audit trail, that allowed an independent auditor to assess the dependability and confirmability of the research methods used, is a final determinate of the trustworthiness of a research study. The field work for this research study was financially supported. The author, therefore, had a contractual obligation, as well as methodological reasons, for establishing an audit trail of the data collection and analysis procedures. Records were kept throughout the research study, which enable the findings to be confirmed and their dependability assessed in a number of different ways.

Transcripts of all interviews are available in hard copy as *Word* documents, and for the sample of firms studied longitudinally, in the NUD*IST format, together with interview plans, notes, contact summary forms and interview summaries. Interim reports are also available detailing the progress of the research, interim findings and case summaries, as well as the plans for the next stage of the research process at given intervals. Finally, the NUD*IST data files allow an auditor to see clearly the analysis route taken by the author in both the establishment of categories and the searches made. The use of NUD*IST in studying the firms longitudinally also enabled the author to provide a means through which the findings of the research could be easily interrogated to confirm quotations from the data, stories and narratives written and to establish the direct linkage between the findings reported and the raw data.

It is proposed, therefore, that the research has been undertaken in a thorough and rigorous manner within the traditions of the naturalistic paradigm. Whilst there is no claim that the study is statistically representative of the SME population, the conclusions drawn are a valid and reliable base from which inferences and conclusions can be drawn and future studies developed.

Summary and Conclusions

In this chapter the methodological approach of this thesis was debated and the choice of research methods evaluated. The research process undertaken was described, and the appropriateness of the choices made, justified. The research followed in the tradition of the naturalistic paradigm and, as such, is a phenomenological study of an exploratory and qualitative nature.

The epistemological stance taken required an inductive approach to theory-building. Such theories are perceived as being grounded in the data. The principles of grounded theory and the process of analytical induction enabled the development of inductively derived theories based on a thorough and rigorous analysis of the data generated. In Chapter 4 the findings of the initial interviews of the sample of 25 firms will be evaluated and the research themes followed longitudinally clarified. In Chapter 5 the reader will be introduced to each of the six firms studied longitudinally, prior to the analysis of the longitudinal data.

Chapter 4: Identification of Research Themes

Introduction

The aim of this chapter is to evaluate the findings of the initial interviews of 25 firms conducted at the commencement of the study. The objective of the interviews was to generate data on the activities in which SMEs engaged, when competing internationally. The firms selected, as explained in Chapter 3 were all viewed as competing effectively on international markets. From this data, the research themes to be pursued longitudinally were identified.

A range of activities identified both in previous research and in the preliminary group discussions were studied. The strategies the SMEs used to compete on international markets and how the firms organised those strategies across and within their international markets was investigated. The objective was to explore the basis on which SME's were able compete effectively on international markets. The rationale behind the sample selection and the design of the research instrument (see Appendix II) were fully discussed in Chapter 3 and so will not be repeated in this chapter.

This chapter is divided into four major parts. In the first part the author will discuss the role of this chapter in the context of the thesis and its relationship with previous and future chapters. The findings will then be explored. These have been organised into the three parts; what strategies were pursued, how international activities were organised and why the firms perceived the activities in which they engaged were effective. Within each section, the gaps and deficiencies in the data will be evaluated and how the issues identified were developed in studying the firms longitudinally explained. Finally, the chapter will synthesise the findings and introduce the research themes pursued longitudinally.

The Context of this Chapter in the Thesis

In Chapter 2 of this thesis, it was suggested that a criticism of the previous research in export marketing was that it predominantly followed the traditions of the positivist paradigm and was often, too concerned with isolating the key variables that determined export performance. It was concluded that the body of literature assumed a relationship through which SMEs responded in a deterministic manner to their external environment. As a consequence of this, many studies examining determinants of export performance assumed a linear relationship between variables and focussed on establishing the causal pattern of the relationship between the various categories of independent variables.

The research underpinning this thesis follows in the tradition of the naturalistic paradigm and, as such, the research is primarily a phenomenological study of an exploratory and qualitative nature. The epistemological stance taken, as discussed in Chapter 1, required an inductive approach to theory building.

The contributory value of this chapter to the thesis is that it provides the bridge by which the author moved from the perspective taken in previous research, to the perspective required to explore inductively the nature of firms competing effectively on international markets. Through an exploration of the data generated, it helped to establish the boundaries of the research study.

It needs to be stated, therefore, at the outset of this chapter, that the aim, was not to test whether one activity was more or less important than another, *nor* was it intended to identify causal relationships that determined export performance. The aim was, rather, to gather data on a range of activities and behaviours evidenced in the firm and to explore from the viewpoint of the firms themselves why they were able generate a competitive advantage on international markets.

As stated above, the discussion of the findings have been structured into three parts. Each of these areas will be explored in the following sections of this chapter.

The Strategies SMEs Used to Compete on International Markets

A shortcoming of previous research identified in Chapter 2, was the fact that most of the studies examined determinants of export performance from the perspective of the completion of the export transaction, not the long-term competitiveness of the firm. The author suggested that, in exploring the nature of firms competing effectively internationally, it was important to examine the strategic perspective of their international development over the longer term. In the initial interviews of the 25 SME's it was found that over half of the firms (52%) perceived themselves as having a strong international portfolio of business in a number of countries and were actively developing new markets. The other 48% perceived themselves as having a well-developed international business strategy committed to international expansion.

All the firms surveyed saw international expansion as being central to achieving the future growth objectives of the firm. Most respondents saw this growth as being achieved through increased business from their existing international customers (80%) as well as from new markets (76%). Other respondents saw growth coming from new product introductions (52%) or taking existing business from competitors in foreign country markets (68%). A minority of firms saw growth as coming from their own domestic customers internationalising (16%).

Thus, firms followed expansionist strategies in new developing international markets based on a strong commitment to international development. The principle of the strategy-environment co-alignment (Cavusgil & Zou, Porter, 1980; Venkatraman & Prescott, 1990; Yeoh & Jeong, 1995), which stated that the *fit between* a strategy and its context (in this case the international marketing environment), had implications for a firm's ability to compete internationally was recognised and discussed in Chapter 2. As such, the strategic fit between external market conditions, managerial skills and resources of the firm (Madsen, 1994; Axinn, Sinkula & Thach, 1994; Yeoh & Jeong, 1995) needed to be explored. Central to the resources the firms considered important were, the products and services offered in the international market place.

Products

From the viewpoint of the respondent firms, supporting much of their success was the fact that they perceived themselves as product leaders in the markets in which they operated. This did not necessarily mean their products were of the highest quality, but that the firms felt they were able to demonstrate clear added-value with their products on international markets. However, it was unclear whether the firms succeeded in competing internationally because they were product leaders, or, whether their ability to demonstrate added value to their products generated success and so meant they became perceived, in their view, as product leaders in the market place.

Table 4.1: Product Policy

Respondents	0 %	1 %	2 %	3 %	4 %	5 %	Weighted Average
The company is able to exploit clear product advantages in export markets.	16	1	1	9	3	69	3.9
1. Its range of products is modified and adapted to market needs.	20	4	0	12	0	64	3.6
2. Products have clear advantages over indigenous competitors.	16	0	0	8	4	72	4.0
3. The company are investing in a brand name internationally	12	0	4	8	4	72	4.1

Table 4.1 gives the percentage ratings by the respondent firms on how well they perceived their performance in their international product policy on a scale of 0-5. The weighted average (WA) of the scale is given for each component. In managing product portfolios, firms felt they had the ability to exploit clear product advantages in export markets (WA of 3.9) and that they had a distinct advantage over indigenous competitors (WA of 4.0) on international markets. Many of the respondents were relatively small companies operating in industrial markets. Even so, they perceived themselves as investing in building a brand name internationally (WA of 4.1) and were also prepared to modify and adapt products to the needs of their export markets, and even to design new ones to meet specific market needs (WA of 3.6). Thus, even though many of the firms surveyed were relatively small, they felt they were investing in building an international reputation and were able to exploit distinctive product advantages in their export markets and it was this ability that was the engine driving their success. There was a high level of confidence in the quality of their products. This can be further illustrated in the somewhat ambitious international product objectives the firms set:

> "To consolidate our position as the worlds leading manufacturer of specialist tools for woodworking"
>
> "We manufacture and sell graphite electrodes to the steel making industries around the world"
>
> "To produce the best membrane dry suit in the world"
>
> "We provide technical solutions to the Oil, Gas and Petrochemical industries"

These findings were consistent with previous research. The role the product offering played in achieving a *strategic fit* on international markets has been emphasised in a number of studies (Cavusgil & Zou, 1994; Madsen, 1989; Edmunds & Khoury, 1986; Thirkell & Dau, 1998). The areas of product policy, viewed as key to achieving product advantage in this study were seen to be the range of products available, the ability of the firm to adapt and modify products and new product development. Whilst this maybe true, it seems that it is really the firms ability to exploit its product advantage that was the critical underpinning to the ability to achieve the strategic fit as identified in the literature.

The product factor is only part of a firm's total offering, and whilst a firm may rationalise its success in terms of the product, this may be because it is the most visible aspect of a firm's activity. It is necessary therefore, to look in more depth at the role of the products offered in the entirety of the firm's resources and also at the process by which the firm built its product offering to achieve a strategic fit in its international markets. It is no doubt true that the firms studied had good quality products. However, this piece of information in itself, does not give an insight into the underlying processes which led a firm to this position. To do so, a firm's product strategy needs to be viewed in the context of other behaviours and in relation to how the product helped the firm seek an alignment within its international markets.

Marketing strategy is not just about products but also about markets (Ansoff, 1965). In exploring the strategies pursued by SMEs it is necessary, therefore, to look at how the firm approached this aspect of strategy development.

Market Development

Interestingly, the majority of firms operated in a widespread selection of markets. As can be seen from Table 4.2, virtually half of the respondents operated in more than 20 markets, with some (20%) operating in more than 50.

Table 4.2: Number of International Markets in which Firms Compete

No. of markets	0 – 10	11 - 20	21 - 30	31 – 50	Over 50	Mean	Standard Deviation
% respondents	28	24	8	20	20	33.4	28.43

However, this table belies the fact that firms had a definite hierarchy of markets. In virtually all cases firms had distinct *primary markets* where at least 30% of a firm's export turnover was earned. The primary markets most often identified were Scandinavia, USA and Ireland. These were followed by *secondary markets* that accounted for between 10-30% of export turnover; France, Belgium, Germany, Australia and the Far East being most frequently mentioned. Finally, firms had a greater number of *tertiary markets*. Most common *tertiary* markets mentioned in this study were Italy, South Africa, the Middle East, Japan.

Hallen & Wiedershem (1979) suggested the notion that SMEs, when operating on international markets, identify their primary markets as the ones where they feel most culturally at ease. Thus, the perception of the firm is that the psychological distance between the international market and their home market (known as the psychic distance) is relatively small. Firms will work to reduce the degree of commitment and risk in markets where the gap is perceived to be much wider and these they term as tertiary markets. Klein & Roth (1990), in a study considering the effects of psychic distance and international experience on the international development of firms, suggested that the *psychic distance effect* (p.30) was usually a function of the firm's perception of risk and their lack of knowledge of foreign market conditions.

However, this was not always the case in the sample of firms studied. As previously stated, a significant percentage of the firms in this study operated in a large number of markets, many of them tertiary in nature. In these cases, firms had relatively small market shares in the foreign markets in which they operated. This seems to suggest that the firms followed a market diversification strategy as opposed to concentrating solely on a few foreign markets.

Olusoga (1993) investigated the effect of market concentration (an international strategy with a narrow geographic scope) and market diversification strategies (a broad geographic scope) on firms in the USA. He suggested that the two strategies generated totally different consequences in terms of sales, market shares and profits.

Market diversification reduced market risks, enabled firms to exploit the economies of flexibility and be more adaptable to different market needs, whereas following a market-concentration strategy enabled a firm to achieve market specialisation, economies of scale, market knowledge and a high degree of control. For these reasons a number of previous reports (DTI Winners report 1997, BETRO 1979) recommended that small firms follow a market concentration strategy in order to concentrate resources and achieve a greater market share. This conflicts with the views expressed in this study where with such a small potential market share in any one market, it was suggested by respondents, greater profitability was achieved by spreading across a number of markets. One respondent indicated:

> "You never asked how many towns in England we send to. To us the world is all the same. It really does not make any difference, we are not near to any of our customers so we have to arrange transport and documentation wherever they are, whether they are in Aberdeen, Abu Dhabi or Australia." (Valve manufacturer)

The findings of this study suggest that the respondents viewed themselves as operating as international niche marketers, not necessarily as exporters to a particular foreign country market. Consequently, once they had exploited that particular niche, they looked elsewhere in order to develop and this was the reason they followed a market diversification strategy. Thus customer development in new international markets was more important than market share acquisition in the country they had already entered.

> "We will only have one or two potential customers in the whole of a country, if we are already dealing with them there is no point in developing it further, so it is a case of knowing which other markets where there is potential." (Specialist steel stockholder)

> "We focus on a few select customers and try to expand all the time by identifying and targeting selected customers who have been specifically aimed at." (Cutting tools manufacturer)

If this is the case, perhaps the appropriateness of using market share as an indicator of performance on international markets (Zou, Taylor & Osland, 1998; Madsen, 1989, 1998) needs to be questioned. It also questions whether increased market share in a foreign country market is an appropriate objective for an SME.

Katsikeas & Leonidou (1996) compared the profiles of firms who pursued a market concentration strategy with those who followed a market diversification strategy amongst a sample of SME food manufacturers in Greece. They concluded, in their study, that the firms following a market diversification strategy were much more proactive and attached greater importance to the pursuit of building a strong portfolio of international business whereas market concentrators tended to follow a reactive, or passive, export approach. This was consistent with an earlier study by Da Rocha et al (1990) of Brazilian SME manufacturers. They identified a positive relationship between foreign market diversification and aggressive export involvement.

It seems there is evidence of such attitudes in this study. The respondents seemed to view their international markets in terms of customers, not necessarily in terms of countries, and so sought those customers in as many countries as possible. This is important as it gave them the means of focusing their strategies towards the needs of their customers and gave the firm a much clearer view of how their products should be positioned in those markets.

The Role of Strategy Development

Although respondents viewed themselves as international niche marketers, it did not necessarily mean that the firms expanded to all parts of the globe at once. Only two companies planned to develop by expanding into as many markets as possible. All the other firms saw international expansion as a sequential process focusing on a few select customers at a time.

> "Because we export to a lot of countries people get the wrong idea and think we are madly trying to do everything everywhere. It's not like that, yes we treat the world all the same, but when it comes to customer development we look at one or two at a time." (Hand tool manufacturer)
>
> "The UK was our first market, the next step was Europe and then our markets further afield." (Cutlery firm)
>
> "We have established markets which run themselves, ones we are developing in the short term and others we are looking at long term". (Industrial safety lamps)

Thus, the international development of the firms had not been one of uncontrolled growth and, whilst they proactively pursued international business, this was an evolutionary and steady process.

A limitation of focusing purely on the initial interviews is that issues can only be explored through the views of the respondents reflecting on an historical process. It is difficult, therefore, to gain an insight into the actual process firms went through in developing their international strategies. For instance, it is unclear whether the strategies gradually emerged over time or were a result of a formal long-term planning process. It was also difficult to explore whether the firms had been highly proactive in their strategic orientation, or whether the resultant strategies were simply a result of a reaction to environmental forces.

The influence of strategic orientation has received relatively little attention in SME literature (Aaby & Slater, 1989; Cavusgil & Zou, 1994). Few previous studies have directly explored strategic orientation in an international context particularly from the point of view of SMEs competing on international markets. Wood & Robertson (1997) examined the relationship between proactive and reactive strategic orientation and export success in a sample of 137 SME manufacturers in the USA. They suggested a proactive strategic orientation was the starting point for the export success of a firm and that the commitment of a firm to analysing it's foreign markets combined with a desire to beat domestic competition, was a demonstration of a proactive strategic orientation.

In the initial interviews, the evidence suggested that a proactive strategic orientation played a role in supporting a firm's capability to compete overseas. How that strategic orientation manifested itself in the long-term performance of the firm, the role these factors played in achieving international competitiveness, and how international strategies were developed were questions left unanswered in the initial interviews. For this reason the issues raised in this section were viewed as one of the research themes to pursue longitudinally.

This section gave an indication of *what* the firms did, *how* firms structured and organised those activities across international markets will be explored in the following sections.

How The Firms Structured and Organised their Activities Across International Markets

International Market Intelligence

The role of intelligence gathering in building the capability of an SME to compete internationally has received some attention in the previous SME exporting research literature. Aaby & Slater (1989) viewed it operationally as an important *competence.* Equally, Cavusgil & Zou (1994) and Sriram & Sapienza (1991) identified that investment in market research was needed to support successful export marketing and attributed failure on international markets to a lack of market knowledge. However, neither of these authors examined the intelligence gathering process in the context of its contribution to competing effectively internationally.

The evidence from this study suggested that companies invested heavily in ensuring they had good quality and relevant market information on their markets. However, very few of the firms carried out any formal or structured process of marketing research. It seemed that intelligence was gathered on an informal basis and through networks of contacts, rather than through a systematic formal process. In defending this, firms expressed the view that, whilst they did not carry out formal research, they had an efficient method for gathering intelligence on their markets. Table 4.3 details their assessment of their intelligence gathering activities.

Table 4.3: Intelligence Gathering Practices

	0 %	1 %	2 %	3 %	4 %	5 %	WA
There is a systematic process for the collection and use of published international market information.	51	4	12	4	5	25	1.9
1. The company regularly makes use of support service information	56	0	8	4	0	36	2.1
2. The company subscribes to industry, trade and government research publications.	28	8	16	4	16	28	2.6
3. The company regularly makes use of on line information sources, such as the internet.	68	4	12	4	0	12	1.0
The company fully invests in ensuring it has a thorough knowledge of its export markets.	13	0	5	16	5	60	3.8
1. It has knowledge of competitor activity.	16	0	4	12	0	68	3.9
2. It regularly surveys export markets.	12	0	4	16	4	64	3.9
3. It has a system of information retrieval from key intermediaries.	12	0	8	20	12	48	3.6
The company makes full use of external support services to gather information.	24	7	8	7	5	49	3.1
1. There are strong links with local business link & local export club support services.	32	4	12	8	8	36	2.6
2. They have a close working relationship with their bank.	8	0	8	0	0	84	4.4
3. They make full use of national DTI information and support services.	32	16	4	12	8	28	2.3

As can be seen from Table 4.3, there was very little evidence that firms had a systematic process for the collection of published market information (WA of 1.9). 56% of the sample had never used information from UK support services and 68% had never used external consultants to gather information of this nature. This trend is reflected in the firms' use of external support services generally. All respondents had close relationships with their banks (WA of 4.4) but the links with external intermediaries such as Business Links and Chambers of Commerce were sporadic. 32% had no links whatsoever whilst (36%) had extremely close links with the local services and 28% had close links to the DTI. Seemingly once a fruitful connection with the local support services was made, firms developed the link substantially. If the connection did not bear fruit immediately, then contact with them would end.

However the firms did feel that they fully ensured that they had a thorough knowledge of their export markets (WA of 3.8). The firms scored relatively highly in this section and there was evidence that firms felt they had good knowledge of competitor activity in markets (WA of 3.8), that export markets were regularly surveyed (WA of 3.9) and that they had a system of retrieval from key intermediaries (WA of 3.6).

It seems respondents relied very heavily on gathering intelligence through a series of networked relationships, which they themselves had built. Thus respondents placed a greater value on the system of retrieval of information from their intermediaries in the international market place than, for instance published sources of secondary data.

Respondents were asked to explain how personal contacts helped them evaluate opportunities in foreign markets. Over half the respondents said the contacts in the foreign market had been important in, firstly, alerting them to opportunities in the market (52%), secondly in providing valuable information (56%), and thirdly in helping them find their way through the maze of local bureaucracy (50%).

These findings are consistent with both Styles & Ambler (1994) and Madsen (1987) who identified that the most valued sources of information for SMEs were interactions with key network members such as retailers, wholesalers, importers and distributors.

Styles & Ambler (1994) argued that it was a firm's relationships which were responsible for providing information and resources to the firm and that this was critical in facilitating better decision making and the development of the firm in its international markets. How the firms gathered intelligence through their network of contacts, which intelligence was critical in strategy development and how it was used, were considered important research themes to pursue longitudinally.

An indication of the type of intelligence gathered and how SMEs used intelligence could be observed from the data generated in the initial interviews. As niche marketers, firms had a very clear picture of the characteristics needed to indicate evidence of potential customers in any market. Thus, they did not amass descriptive country information. Firms focused intelligence-gathering on identifying specific criteria which acted as indicators of potential customers. The view was expressed that, as they had quite specific intelligence requirements, they found a lot of general published information not relevant to their needs.

> "When we embark on a market research program it is not on a country-to-country basis, we identify potential customers by looking for manufacturers of specific equipment at specific prices." (Steel stockholder)

> "We look for pretty clearly-defined parameters. It tends to be an affluent well-established hobbyist market, a fair amount of forest and natural timber and a culture of wood working." (Wood working tool manufacturer)

> "For us, it is a reasonable climate, a developing economy and little competition." (Fishing tackle supplier)

> "We examine who has won important contracts world-wide and then target them." (Engineering)

> "We look for manufacturers who are changing their production bases as that means opportunities." (Steel rolling equipment)

By doing this they were able to eliminate large numbers of potential markets and focus in on ones with potential. Having satisfied themselves there were indicators of a customer base, factors such as difficulties in accessing the market, competitive activity and customer needs were then investigated.

The evidence seemed to suggest that market intelligence was part of the iterative process, critical in helping firms decide how to compete on international markets. As such, it played an important role in supporting the strategy development process of the firm. Because the firms had formulated a clear view of the criteria by which they could evaluate the potential of a market, they were able to exploit their contacts in those markets to great effect.

The influence that strategy exerts on success on international markets can be examined from two perspectives; the marketing / management view and the relational / interaction approach (Styles & Ambler, 1994; Evangelista, 1996). The views of respondents expressed in this study suggest their approach to building their international marketing strategies was more akin to the relational view of marketing. This conflicts with the notion, suggested by previous research as discussed in Chapter 2, that SMEs had a purely sales oriented view of their international markets, and did not take a long-term strategic perspective, often competing on price and using intermediaries merely as delivery conduits.

It does seem that the firms actively pursued a network of contacts and developed a strategic perspective to building close relations with their overseas customers, not only to gather intelligence but also in their attempts to build a competitive advantage by adding value to their product offering via their relationship. This can be seen in the perspective taken by the respondents to such issues as the way in which they set out to manage activities along the international supply chain as well as their commitment to high quality and reliable services to their international customers. These aspects will now be discussed

Managing the International Supply Chain

The firms studied followed a strategy of building close relations with their overseas customers. Firms had clear objectives as to what they wanted to achieve from the relationship and worked with their network of contacts to achieve those objectives.

Table 4.4: Supply Chain Management

	0 %	1 %	2 %	3 %	4 %	5 %	WA
The company has an effective strategy in place for managing the supply chain to & from foreign customers.	13	3	11	11	5	67	4.0
1. The company makes regular communications with overseas partners.	12	0	0	4	4	80	4.3
2. The company regularly encourages partners to visit the UK	12	4	4	8	8	64	3.9
3. The company makes regular use of partner's information on their foreign country markets.	16	4	28	2	4	46	4.0
The company has an effective system for ensuring a high level of customer service.	4	1	0	8	11	76	4.5
1. It regularly reviews and collects customer information of expectations & experience.	4	4	0	16	8	68	4.2
2. It has an effective system for handling, shipping, & export documentation.	4	0	0	4	20	72	4.5
3. It uses the services of freight forwarders and export middlemen.	4	0	0	4	4	88	4.7

Firms considered they had developed an effective strategy for managing the international supply chain (WA of 4.0). Respondents viewed it as vital that regular communication with overseas partners was made (WA of 4.3), in some cases there was telephone contact several times weekly or even daily. The relationships that firms built on international markets were clearly critical to the success of the firms' operations in those markets and high priority was given to nurturing the links that were particularly vital:

> "My thinking is that if you have a good market opportunity which is potentially sizeable, don't give them chance to contact a competitor, you need to keep them in your pocket." (Surgical instrument manufacturer)

A number of firms (WA of 3.9) encouraged partners to visit the UK and in some cases supported this financially. Thus firms built close relationships throughout their international supply chain and invested in maintaining regular communications with their overseas partners, especially for building knowledge on international markets.

Good personal contacts with the market and close relationships with the intermediaries handling a firm's products in the export market, meant the firms had a much closer understanding of that market and, so, a greater probability that market strategies developed were more appropriate to their needs (Styles & Ambler, 1994). This supported the perception of the marketing process as a managerial activity to maximise relationships in the firm's network in order to improve, not only short-term sales volume, but also long-term profitability. This, again, is consistent with the growing body of literature in strategic marketing, which argued that that marketing effectiveness should be examined from a relational perspective, rather than the simple transaction approach (Wilson & Moller, 1991; Styles & Ambler, 1994; Kotler, 1992). Whilst Styles & Ambler's research referred to SMEs, the work of Kotler and Wilson & Moller referred to larger organisations.

Central to the building of long-term relationships is the maintenance of customer loyalty. To ensure the achievement of this, special emphasis was placed by the firms in the sample studied on ensuring they had the processes in place to offer a high quality and reliable service to their customers (WA of 4.5). Having well-managed export administrative systems and well-organised internal logistics functions (WA of 4.5) was important. For many of the firms, this meant having a close working relationship with a freight forwarding company who acted as their de facto export department (WA of 4.7). Even firms who had dedicated export departments emphasised the importance of having a good working relationship with freight forwarders and export middlemen. This was consistent with the findings of Louter, Ouwerkerk & Bakker (1991). In their study of 165 SME manufacturers in Holland they concluded that after sales service, flexibility, on-time delivery, and reliability were critical success factors for exporters.

Having such systems in place meant the firms were able to integrate this into the competitive advantage they built on international markets. This could differ depending on the size of the firm. A larger SME made the point:

> "If I am negotiating with a potential customer, I can reassure him we have dedicated resources ensuring the smooth physical movement of his order. It goes a long way in reassuring him of our competence."(Glass jar manufacturer)

For a smaller firm, it meant ensuring all its staff had the skills to deal with any enquirer or customer:

> "In order to ensure a high level of customer service in export markets we operate multi-skilling throughout our workforce. We are a small company dedicated to fast efficient customer service, as such we find multi-skilling essential." (Fishing tackle supplier)

The building of such skills was seen to be an important element of the strategy in achieving close relationships in the supply chain. It seems the firms studied, even if they did not have a physical presence in the international markets in which they operated, invested heavily in both time and resources to ensure they had systems and processes in place to manage operations effectively.

Quality Processes

Central to the firms' management of international activities was a commitment by the firms to the provision of a quality service at every stage of the supply chain.

There was a strong commitment to a high quality standard in the processes of their own firms and firms they used in the international supply chain. This was seen to be vitally important, especially amongst the smaller companies, whose commitment to quality products and processes was seen as a signal to their customers of their commitment to their international markets. This is illustrated in Table 4.5.

Table 4.5: The Firm's Commitment to the Provision of Quality Services

		0 %	1 %	2 %	3 %	4 %	5 %	WA
The Company is committed to quality processes.		17	1	0	7	4	71	3.9
1.	There is an explicit statement of the company's quality policy.	20	4	0	12	4	60	3.6
2.	There is an explicit process for translating the company's quality policy into departmental goals and measurable targets.	24	0	0	4	8	64	3.6
3.	The company is committed to supplying quality products throughout the world	8	0	0	4	0	88	4.5
4.	Procedures are in place to monitor and measure contribution of export performance.	8	0	4	0	4	84	4.4

As a part of their quality mission, many of the firms considered they had invested heavily in order to have systems in place, which made sure it was easy for their customers to buy wherever they happened to be in the world (WA of 4.5). This meant well managed administration and logistics as well as making sure they built close relationships with their customers. This was achieved through a well developed network of international contacts amongst supply chain partners and a staff committed to giving a high level of service to export customers around the globe.

The majority of firms had an explicit quality policy (WA of 3.6) and had an explicit process in place for translating their firms' quality policy into departmental goals and measurable targets (WA of 3.6). There was also strong evidence that respondent firms operated tight financial controls over their international business. Firms had in place efficient procedures to monitor and measure the contribution of export sales to the financial performance of the company (WA of 4.4). One respondent stated:

> "We have procedures in place to monitor and measure by customer, by country, by order. We know on a daily basis what is happening and report fully on a monthly basis." (Cutlery manufacturer)

This supported the findings of the studies of Walters & Saimee (1990); Reid (1983) and Kirpalani & MacIntosh (1991), all of whom concluded that strong management and administration arrangements for export markets was strongly associated to performance on international markets.

Several of the respondents made the point that achieving the quality standard (ISO9000) enabled them to present a professional image to their international customers:

> "Quality is important for a small company. It is important to show the foreign customer you have professional processes in place." (Rail equipment)

By attaining this standard, a small company could evidence their serious commitment to their international customers. It was seen by many of the respondents as an essential prerequisite if companies were to compete effectively on international markets:

> "The Japanese are very exacting. Prior to gaining the order they came over to look at our equipment and audit our operations. They were very exacting. If they want it at 1.00 pm don't go at 1.05 pm. However, once you have proved yourself you are in for life". (Precision forger)

The commitment to quality ensured the firms effectively managed the activities central to the efficient operation of their international supply chain. This meant they could guarantee a high level of service to their international customers, as well as distinguish themselves from their competitors. It is one of the reasons that firms invested heavily in good quality promotional materials. Without a physical presence in the international markets, the firms promotional material had to sell the quality image the firms were trying to project.

Table 4.6: Promotional Processes

	0 %	1 %	2 %	3 %	4 %	5 %	WA
The company has a well-defined export promotional campaign.	15	1	11	12	11	51	3.5
1. The company makes use of foreign trade fairs in promoting awareness of goods.	12	4	0	8	8	68	4.0
2. The company regularly reviews and assesses foreign promotional processes in developing competitive advantage.	20	0	24	20	8	28	2.8
3. The company regularly reviews and invests in good quality export promotional material.	12	0	8	8	16	56	3.8

A majority of respondents placed a relatively high degree of importance in having good quality promotional materials (WA of 3.5). Two important media vehicles were seen to be trade fairs (WA of 4.0) and good quality printed promotional material (WA of 3.8). Even the smaller firms had invested heavily in these.

Respondents highlighted the role of promotional material in presenting an image of professionalism and again illustrating to customers their commitment to international markets.

In some cases, material had been translated in to different languages. Some firms, however, had made a conscious decision to use their limited resources in producing good quality material in English. This, they felt, would have wider usage, rather than sacrificing the quality of materials to enable the translation into different languages.

Obviously, this is a key difference between the larger SMEs who had greater resources to expend on the production of promotional material in different languages, and the smaller companies who did not. Thus, within the context of limited resources, a number of firms showed evidence of having a well-defined promotional plan and invested in good quality materials to enable them to build an appropriate image internationally.

The Role of Relationships

As discussed previously, the tenets and principles of the relational paradigm (Styles & Ambler, 1994; Cavusgil & Zou, 1994 and Evangelista, 1996) seemed evident in a number of the findings in this study. Clearly the development of relationships was integral to the ability of a firm to compete internationally.

However, what was not clear was the role supply-chain relationships played in developing the international strategies of the firm, or what their role was in building competitive success on international markets. For instance, was it through the development of relationships that firms built their international strategies or were firms able to develop good supply-chain relationships because they already competed effectively on international markets? The role of relationships, therefore, was a research theme that was pursued longitudinally.

Relationships were seen to be important to the process of organising and structuring a firm's international activities. What was not understood was what motivated a firm to start a relationship and how it decided which relationships to start. There were also questions with regard to how relationships were formed and how a firm managed those relationships over a period of time. Most importantly, from the initial interviews it was not possible to develop an insight into why some firms were so much more effective at managing their international activities and supply chains. All these questions were important factors to consider in studying the firms longitudinally.

The final issue in which data was generated in the initial interviews was why the firms perceived the activities in which they engaged were effective in enabling them to be competitive on international markets.

Why Firms Competed Effectively Internationally

Cavusgil & Zou (1994) argued that, if the researcher was to fully understand the explanatory variables of export success, the individual export venture was a more meaningful unit of analysis in understanding the linkages between export marketing strategies and a firm's performance than the overall firm performance. They postulated that the performance of an export venture was determined by export marketing strategies and the management's ability to implement those strategies. It was therefore appropriate to study a firm at the venture level to assess export market performance. In the initial interviews of the 25 firms, information was generated on ventures that the firms had undertaken, with particular regard to their success or lack of success. The analysis of this data was used to generate an insight into the activities which the respondents viewed as critical, not only to the success of the venture, but also to the failure of a particular venture. It was also very useful in identifying firms to study longitudinally that were potentially rich in information.

Respondents were asked to identify a venture that was particularly successful and relate the story of its development. They were then asked to identify the key reasons why they had experienced difficulties in a particular venture and asked to relate the story of their experience. The stories, of course, were numerous and contained much detail and many interesting issues emerged. A number of these were developed further and will be examined in detail in later chapters. In this section, an analysis of the key findings as to the reasons for the success or failure of the venture will be explained.

Respondents were asked to consider particular ventures, which they considered successful and consider the reasons for their success.

Table 4.7: Perceptions as to Why a Particular Venture was Successful

	1 %	2 %	3 %	4 %	5 %	Weighted Average
	N/A	Unimportant	Fairly Important	Quite Important	Very Important	
Met customer requirements adequately	0	4	4	0	92	4.8
Met necessary standards	0	8	0	0	92	4.8
Transport/distribution well managed	0	4	4	16	76	4.6
Managed overseas distribution well	0	8	0	28	64	4.5
Sufficient market information obtained	4	12	12	4	68	4.2
Dedicate sufficient resources	0	16	12	32	40	4.0
Sufficiently trained personnel	4	28	4	8	56	3.8
Cultural/language empathy	4	24	16	20	36	3.6
Repayment schedule on time	4	24	20	8	44	3.6
Effective promotion	12	24	20	12	32	3.3
Managed external challenges	36	24	8	4	28	2.6

The ability to meet customer requirements (WA of 4.8) through high standards of quality and efficient delivery (WA of 4.6) were, clearly, highly important, as was the fact that the firms had obtained good quality market information (WA of 4.2) and had dedicated resources to the venture. Respondents felt that it was not any single item that determined the success of the venture, but the combination of many factors. Thus, there was a perception that the important dimension in competing on international markets was having practices and processes in place so that effective and co-ordinated strategies could be built.

Respondents were also asked to gives details of their perceptions of the difficulties they had in the market. Table 4.8 gives the results

Table 4.8: Perceptions of Reasons why a Particular Venture Ran into Difficulties

	1 %	*2* %	*3* %	*4* %	*5* %	*Weighted Average*
	N/A	*Unimportant*	*Fairly Important*	*Quite Important*	*Very Important*	
Inability to meet customer requirements	20	20	0	12	48	3.5
External economic influences	32	16	4	8	40	3.1
Failure to obtain market information	28	20	0	24	28	3.0
Insufficiently trained personnel	28	24	0	20	28	3.0
Inability to meet standards	36	16	0	8	40	3.0
Poor overseas distribution	32	20	0	8	40	3.0
Non-payment / Delay of contract / sales	24	24	12	8	32	3.0
Transportation / delivery delays	24	28	12	4	32	2.9
Cultural / language problems	44	20	0	8	28	2.6
Failure to dedicate sufficient resources	32	32	4	4	28	2.6
Poorly executed promotional programme	36	28	4	0	32	2.6
Failure to make special payments	100	0	0	0	0	1.0

It can be seen from Table 4.8 that, whilst the individual reasons for failure/difficulties were wide and varied, many of the difficulties identified came down to operational problems on international markets, rather than to inadequacies in the firm themselves. The inability to meet customer requirements was the major reason for difficulty (3.5), but poor distribution, information failure and non payment (3.0) were all significant reasons. Thus, many of the above problems occurred because of the firm's inability to put in place mechanisms in the market place.

Other examples of difficulties identified by the respondents were such factors as; goods damaged on delivery; transportation difficulties; telecommunication problems; excessive nationalism; inability to compete on price; and too much reliance on the distributor. A number of interesting themes emerge from this section.

Yeoh & Jeong's (1995) criticism of previous performance determinant studies was their tendency to focus on simple bi-variate relationships without probing the possibility of moderating effects by other important contextual factors that can either strengthen or weaken such relationships. They questioned the assumption that the independent variable of interest had a direct effect on performance when interplay of internal and external factors in a study were neglected (Yeoh & Jeong, 1995).

It was for this reason that Yeoh & Jeong (1995) proposed the contingency approach, based on the analysis of the fit between a firm's strategy, its own skills and resources and market conditions. The interrelationships between these three factors were seen as important in seeking explanations of how a particular firm competes on international markets.

The findings of this part of the study, examining examples of particular ventures on international markets, support this view. There were strong indications, that the reasons behind a successful venture were difficult to isolate and that it was the combination of many variables and factors which underpinned the success. This supports the notion that a holistic approach needs to be taken in seeking explanations of competitive success and that the firms need to be examined in the context of how they develop strategies that are relevant to the conditions they face in their international markets.

Furthermore, the findings suggested that, according to the views of the respondents, many of the problems encountered were caused by their inability to manage actual operations in their international markets. This, again, supported the view expressed earlier that, it was by building effective relationships in markets, that some firms were able to overcome many of the resource and size deficiencies SMEs suffer. Further explorations of how SMEs build and use relationships were therefore considered an important theme to develop longitudinally.

Finally, in all but two cases, the firms persisted in their commitment to the market and developed strategic solutions to overcome the difficulties. In these cases they identified the root cause of the problems being experienced and made a decision to learn from those mistakes, change their operations and so overcame the barriers. In some cases this necessitated increased investment to give them greater control in the market.

It was this ability to overcome challenges and then manage the totality of the marketing operations effectively which firms saw as one of the key reasons they were successful in their international markets. This supported the notion that, in order to compete effectively on international markets, firms must show a strong and persistent commitment to the markets they are developing. They must also have the ability to learn from the challenges faced and the energy to drive through solutions, in order to develop over the longer term.

This final point highlights two issues which, so far, have not been debated in this chapter. That is, the role of the attitude of the SME to developing internationally and the ability of the firm to adapt to a changing environment. Each of these factors was seen as central to the success of the particular ventures explored and so will be examined further in the following sections.

Management Attitudes

There is certainly substantial support from previous studies for the view that management commitment and management attitudes are key determinants of export performance. Bilkey (1982); Dichtl et al (1990); Shoham & Albaum (1994), in their studies of small firm exporters, found that commitment was a critical characteristic in explaining export behaviour and performance. Although as was debated in Chapter 2, this assumption was questioned by a number of authors (Cavusgil & Naor, 1987; Reid, 1983; Schelegmilch & Crook, 1988). It is, perhaps, self-evident that the commitment and enthusiasm of the top management in driving the firm forward in their international development was seen as important and of little surprise that respondents expressed this view. What is interesting is the manner in which this commitment manifested itself in terms of both time and resources. As one respondent said:

> "I think success on international markets is an attitude of mind, but that attitude of mind needs to turn commitment into resources." (Specialist engineer)

Table 4.9 shows how the respondents translated their commitment into real resources to support international development.

Table 4.9: Commitment of Resources to International Markets

	0 %	1 %	2 %	3 %	4 %	5 %	WA
The company top management display a commitment and enthusiasm to developing internationally.	24	0	16	20	8	32	3.5
1. Top management gives a true 'time' commitment to exporting.	8	0	0	4	0	88	4.5
2. Creative and innovative behaviour with regard to international markets is consistently encouraged and resourced.	16	12	8	8	12	44	3.2
3. There is a clear ratio between commitment of resources and contribution to profit of export markets.	12	4	4	8	4	68	3.9
The company invests regularly in export related activities.	25	1	4	5	4	60	3.4
1. The company commits resources to export related activities.	16	0	4	4	8	68	3.9
2. The company employs a number of dedicated export staff.	40	4	4	0	4	48	2.7
3. Exporting marketing is central to the company's organisation structure.	20	0	4	12	0	64	3.6

The respondents in the survey showed evidence that commitment from the top meant the commitment of all available resources to the international markets (WA of 3.9). There was a clear ratio between the commitment of resources and the profitability of export markets (WA of 3.3). This resource commitment also meant that top management gave a true time commitment to the development of international markets (WA of 4.1) and export related activities (WA of 3.9). There was also strong evidence that international marketing activities were central to the company's organisational structure (WA of 3.7).

Kirpalani & MacIntosh (1991), in a study examining the international marketing effectiveness of technology-oriented SMEs in the USA, also found that management attitudes were a critical factor underlying success on international markets. They, too, argued that top management commitment and effort was a crucial factor in competitive success on international markets, as was the quality of the staff of the firm.

However, it was difficult from the analysis of the initial interviews to develop an understanding of what the firms meant by the term *commitment*. It was also difficult to ascertain how a firm translated this commitment into the ability to compete on international markets.

Holzmuller & Stottinger (1996) acknowledged that the commitment of top level management in SMEs had an important impact on the organisation and its policies and decision-making. However, as discussed in Chapter 2, they also argued that commitment needed to be examined in the context of an organisation's ideology. Collins & Porras (1998) discussed the role of the core ideology of a firm in developing the attitudes and capabilities within a firm. They suggested the core ideology of the firm was the loci of the orientation of a firm that determined the priorities of the firm, its values, as well as the type of management capabilities thought important to the firm. A firm's commitment, then, and its attitude to international market development, needed to be examined in relation to the strategies and activities the firm's core ideology encouraged. Collins & Porras in their research referred exclusively to very large firms. The findings of the initial interviews suggested it would be interesting to explore further whether these principles could be translated down in scale and had relevance to understanding the nature of SME's competing internationally.

Commitment by top management, however, is of limited value if the rest of the firm does not share it. It was interesting to observe, in the findings, under discussion, that the respondents felt that members of their organisations shared the commitment to international development, as can be seen in Table 4.10.

Table 4.10: Commitment to International Development

	0 %	1 %	2 %	3 %	4 %	5 %	WA
The commitment to international development was shared throughout the company.	12	0	1	7	0	80	4.2
1. International objectives are well defined and disseminated throughout the firm.	12	0	0	16	0	72	4.1
2. Critical success factors are identified and understood with respect to international markets.	12	0	4	0	0	84	4.3
3. The distinctive competencies of the firm are identified and understood with respect to international markets.	12	0	0	4	0	84	4.3

In the firms surveyed, the respondents felt that there was a shared commitment to international development throughout the firm (WA of 4.2). The mission statement and international objectives of the company were seen to be well defined and disseminated throughout the firm (WA of 4.1). Perhaps more importantly it was perceived that the employees shared an understanding of the critical success factors (WA of 4.3) of the firm and they understood the distinctive competencies the firm was trying to build (WA of 4.3). As one respondent stated:

> "Commitment is a part of our culture that has been built up; our workforce is an integral part of the team, they are just as interested to hear the results of an overseas visit as the board. If they do hear criticism from our customers they do tend to take it personally" (Shoe manufacturer)

Thus, the view given is a highly positive one. This, of course, is the respondent's perception of reality. It was not possible to explore fully the role of management attitudes in engendering the capability of an SME to compete internationally. However, it was identified as an important issue in the research and the findings did raise a number of questions to be explored further longitudinally. Such as, what was the role of the ideological orientation of the firm in the strategy development process and in deciding the network of relationships to be developed. Such questions are explored in later chapters.

The Ability to Adapt to a Changing Environment

The specific context of the study is the area of South Yorkshire. As described in Chapter 1, this area had suffered a savage industrial decline in the years 1981-1995. A number of the respondents discussed how their companies survived when their traditional markets were decimated in the 1980s, by going through a process of re-thinking their entire business operations.

Firms who had traditionally served such industries as steel; coal and cutlery now had international markets for surgical instruments, precision instruments; construction and tunnelling equipment:

> "When this company was first established it was into cutlery. When the bottom fell out of that we started to diversify, firstly into aerospace and then into the surgical market." (Precision forger)

> "Our market used to be coal mines, now it is wherever there is a tunnel." (Railway products)

In order to survive, the firms had redefined their markets. In so doing, they had built on their core strengths to compete effectively in new international markets. The firms to whom this applied had, originally, seen international markets, not necessarily as an opportunity for greater profit, but essential to the survival of the company, and so were now fully committed to competing effectively on international markets.

As discussed in Chapter 2, a number of management traits have been identified by previous research as important to competitive success. Traits such as the need for achievement, risk taking propensity, independence and creative and innovative behaviour were identified by Samiee, Walters & Du Bois, (1993). Other studies have investigated the links between a firm's success and the level of marketing orientation (Davis, Morris & Allen, 1991; Covin & Slevin, 1986; Slater & Narver, 1995).

There was a clear indication that the firms in the sample showed an ability to adapt to changing conditions. As was seen in Chapter 2, the ability to do so was seen as a critical performance measure. *Attitudinal* indicators, such as the expectations of the management and how they were met, (Samiee & Roth, 1992; Madsen, 1998) changes in attitude (Styles, 1998) and overcoming perceived barriers on international markets (Diamontopoulos & Schlegmilch, 1994) were seen to be linked to the firms' ability to react to changes. However, why these firms had this ability, and how they were able to transform this ability into competitive success on international markets, remained unanswered at this stage. Whilst the turbulence in their domestic markets may explain a firms motivation and commitment, it did not explain why that firm was more able to compete effectively.

Attitudes are obviously important, and yet there were some apparent contradictions. The firms in the sample exhibited the motivation to drive their firms forward aggressively and yet, they had a fairly conservative attitude to risk. Firms identified and calculated the different types of risk involved in their international ventures and took actions to negate or minimise risk. Thus, most firms saw themselves as *risk averters*, as opposed to *risk avoiders*. This is perhaps one of the reasons the formation of relationships was perceived to be important by the respondents, to the process of organising and structuring their international activities. In developing their international strategies, perhaps the SMEs sought to avert risk by using their relationships as a moderating influence in their decision making process, and so used them to seek reassurances they were making the right decisions. The desire to avert risk also had implications for the financial and pricing policies pursued by the firms in the sample.

Table 4.11 illustrates the respondent views with regard to elements of risk perception. The respondents were asked to rate a number of risk variables on a scale of 0-5; a score of zero indicating the factor was irrelevant, a score of five indicating a high degree of importance.

Table 4.11: Perception of risk factors in the International Business Environment

	1 %	2 %	*3* %	*4* %	*5* %	*Weighted Average*
	N/A	*Unimportant*	*Fairly Important*	*Quite Important*	*Very Important*	
Currency uncertainties	8	8	12	32	40	**3.9**
Financial policy uncertainties	8	16	16	24	36	**3.6**
Political instability	32	20	20	20	8	**2.5**
Inadequate economic information	52	24	4	16	4	**2.0**
Balance of payment problems	60	16	12	4	8	**1.8**

As can be seen from Table 4.11, the primary concerns of the respondent firms were currency uncertainty (WA of 3.9) and financial policy uncertainty (WA of 3.6). Whilst still regarding them as important risk factors, respondents were less concerned by political uncertainty (WA of 2.5) and inadequate economic data (WA of 2.0). Potential difficulties of balance of payment problems (WA of 1.3) were seen as relatively unimportant.

It is interesting to note that a number of respondents viewed their international markets as less risky than their home market. Payment terms were seen to be more favourable, bad debts were less numerous and actual payments more speedily received. Perhaps the important point here is that the firms had generally very positive attitudes to their international business. Whilst they recognised there were risks and uncertainties, these uncertainties were not perceived as barriers to international development, simply problems to solve.

The conservative attitude to risk was also evident in the firm's approach to pricing

Table 4.12: International Pricing Approaches

	0 %	1 %	2 %	3 %	4 %	5 %	WA
Pricing; the firm uses pricing to gain competitive advantage across international markets.	20	1	7	8	12	52	3.5
1. The company regularly looks to extend credit to foreign customers.	12	0	4	8	4	72	4.1
2. The company continuously reviews pricing to cover fluctuations in costs.	16	0	12	4	20	48	3.6
3. The company accepts both Sterling and foreign currencies as payment for goods.	32	4	4	12	12	36	2.8

Respondents had a very simple philosophy with regard to the transaction risk in pricing:

> "if the deal is not insurable we will not deal" (Specialist engineer)

To a large extent, therefore, as small companies with limited resources, the respondents followed a risk aversion strategy, not having the resources to stand any huge losses. Several respondents made the point that as small firms they could not carry losses, so any risk taken had to be carefully calculated.

There was evidence that firms regularly extended credit to overseas customers over and above domestic customers (WA of 4.1) but were less willing to price in foreign currencies (WA of 2.8). By pricing in sterling, SMEs were making their customers bear the exchange rate risk not them:

> "We cannot afford to take risks, so we always quote in sterling and take action to secure our risks" (Engineering machinery)

However, 36% of the sample achieved the maximum score of five on this variable, so at least a third of the sample priced in a range of currencies, and had pricing strategies which reacted to market changes and challenges. These were, on analysis, the larger firms with over 100 employees. Most firms did have a policy of continuously reviewing pricing to cover fluctuations in cost (WA of 3.6). Thus, whilst a number of firms showed themselves to be quite conservative in their approach to pricing on export markets, the larger SMEs in the sample used pricing to manage, strategically, profitability on international markets.

Whilst Myers & Cavusgil (1996) and Kirpalani & MacIntosh (1991) found that pricing played a critical role in export performance and was an important variable in export success, this was unsubstantiated in this study and there was little evidence that pricing played a key role. Essentially, the pricing component of the marketing strategy was viewed by respondents as a component over which the firm had little control. They did not perceive that they had strong negotiating positions with regard to price and had no control over the vagaries of the exchange rate. Therefore, the principal objective was to limit the uncertainties as much as possible. This, again, supported the view previously discussed that in seeking explanations, a relational view, rather than a transactional view, of the marketing process was appropriate. The firms did not compete on price but sought to compete on added value.

The findings discussed in this section raised a number of questions and contradictions. Whilst it is clear the firms studied showed a strong commitment to international development, it was not clear how this translated into competitive success on international markets. Likewise whilst the firms showed an ability to adapt to changing market conditions, how the firms developed the capabilities to achieve this was ambiguous. Furthermore, whilst some firms were highly motivated, there was a fairly conservative attitude to risk-taking and pricing. All these issues formed a part of the behaviour of the firm and were identified as important issues to be developed further longitudinally and, as such, will be explored in later chapters.

Summary & Conclusions

The aim of this chapter was to evaluate the findings of the initial interviews of the 25 firms selected at the commencement of the study. The objective was to generate data on the activities in which SMEs engaged, in competing internationally. From this data, the research themes to be pursued longitudinally were identified, and the firms to be studied longitudinally, selected.

In this chapter, the findings were organised into three major parts; what strategies the SMEs pursued internationally; how international activities were organised; and why management attitudes enabled the firms to compete effectively on international markets.

Within each part, the gaps and deficiencies in the data were evaluated and how the issues identified were to be developed in later chapters explained.

The respondents seemed to view their international markets in terms of customers, not necessarily in terms of countries, and so sought out those customers in as many countries as possible. This meant that they followed a market diversification strategy. The firms saw themselves as niche marketers who focussed their strategies towards the needs of specific segments of customers internationally. They had a clear view of how their products should be positioned in those markets and the advantages their products could achieve in the international niches over and above their competitors.

The firms rationalised their success, therefore, in terms of the product. The author questioned whether this was because the product was the most visible aspect of a firm's activity. It was thought necessary to look in more depth at the role of the products offered in the entirety of the firms resources and also the process by which the firm built its product offering to achieve a strategic fit in its international market niche. Thus whilst, it is no doubt true, that the firms have good quality products, this piece of information did not give an insight into the underlying processes which led the firms to this position. Unless, that is, it is viewed in the context of other behaviours, and in relation as to how the product helps the firm seek an alignment within its international markets.

A limitation of the initial findings was that issues could only be explored through the views of the respondents reflecting on an historical process. It was difficult, therefore, to gain an insight into the actual process firms went through in developing their international strategies. For instance, it was unclear whether the strategies gradually emerged over time or were a result of a formal long term planning process. It was also difficult to explore whether the firms had been highly proactive in their strategic orientation or whether the resultant strategies were simply a result of a reaction to environmental forces.

The evidence suggested that a proactive orientation played a role in underpinning a firm's capability to compete overseas. How that orientation manifested itself in the long-term success of the firm, the role these factors played in achieving international competitiveness and how international strategies were developed were questions left unanswered. For this reason, the issues raised were viewed as interesting to pursue longitudinally.

How the firms structured and organised their international activities was the second area of data to be explored. The tenets and principles of the relational paradigm as suggested by Styles & Ambler (1994); Cavusgil & Zou (1994) and Evangelista (1996) seemed evident in a number of the findings. The development of relationships was seen to be integral to the ability of a firm to compete internationally. The firms used relationships to gather market intelligence and efficiently manage their international operations. This enabled them to offer a level of reliability and quality of service superior to the competitors.

Relationships were seen to be important to the process of organising and structuring the firm's international activities. However what was not understood was what motivated the firms to start a particular relationship and decide which relationships to foster. There are also questions with regard to how relationships were formed and how firms managed those relationships over a period of time. Was it through the development of relationships that firms built their international strategies or did firms develop good supply chain relationships because they already competed effectively on international markets?

Perhaps most importantly, it was not possible to develop an insight into why some firms were able to sustain the effectiveness of their international activities over a period of time. Thus, these issues were seen to be central to the themes to be pursued longitudinally.

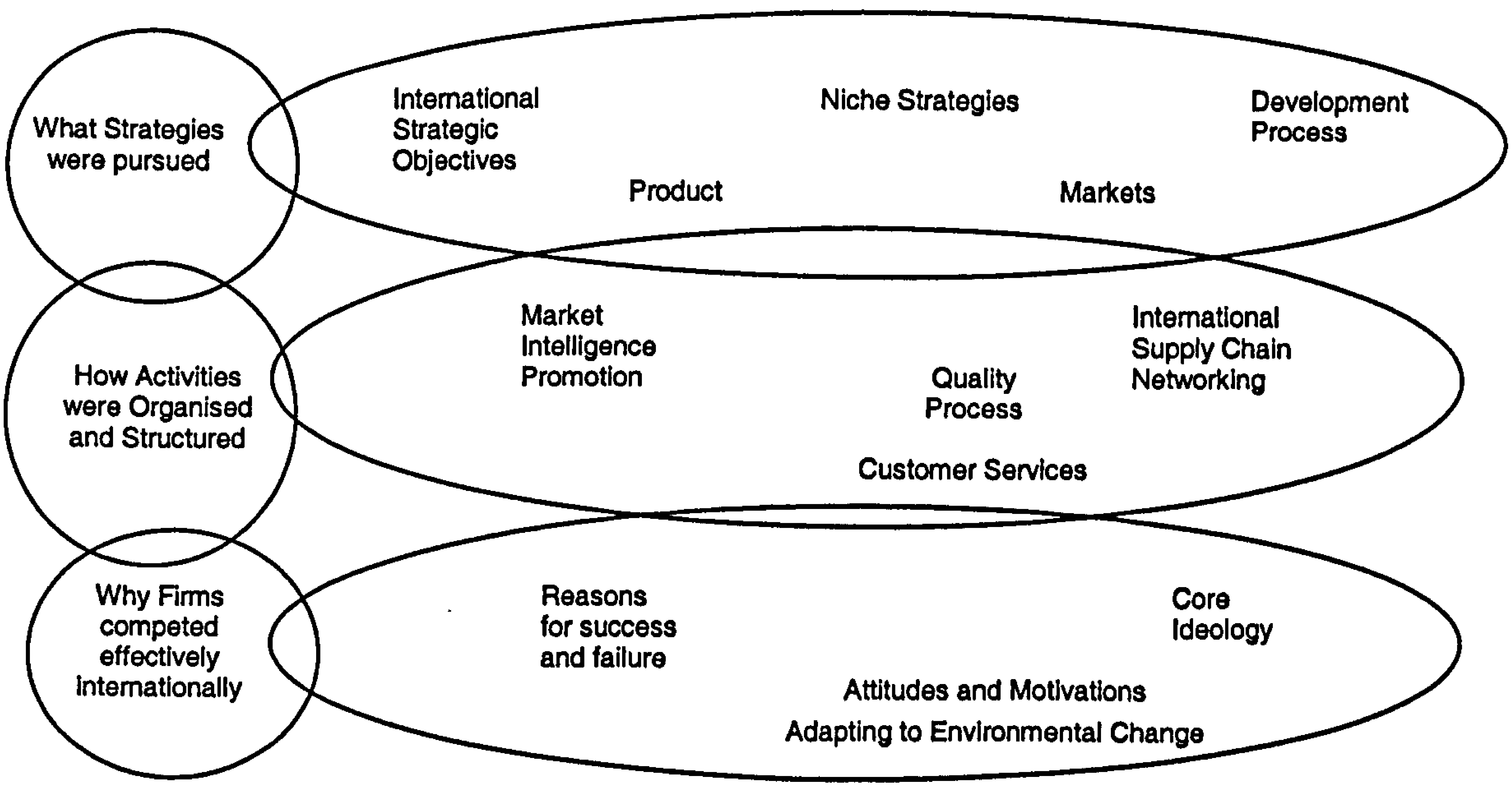
In an evaluation of particularly successful international ventures the ability to overcome challenges and manage the totality of all the marketing operations effectively was viewed as integral to a firms capability to compete effectively on international markets. Furthermore, the ability of the firm to adapt to a changing environment was seen as central to the success of the particular ventures explored.

The importance of the commitment of top level management to international development was acknowledged but this, again, was seen to be a superficial factor. What was more important were the processes underlying this commitment. A firm's commitment and its attitude to international market development needed to be examined in the context of the ideology of the firm and in relation to the strategies and activities that encouraged.

Overall, the findings seemed to suggest that, in order to explore the nature of firms competing effectively on international markets, it was necessary firstly; to take an holistic approach and explore the firms international activities in their entirety, and secondly; in seeking explanations to draw from a wider range of literature.

Three themes were seen to offer potential in seeking an insight into the nature of the firms; the role of strategy development, the role of relationships in building competitive success on international markets and the underlying processes that sustained a firm's international competitiveness over a period of time. As depicted in Figure 6, these themes were seen to be interrelated and interconnected - hence the need to study the firms holistically.

Figure 6: Linkage of Research Themes to Conclusions of Initial Interviews



The findings from the initial interviews contributed to the development of this thesis by identifying a number of gaps and deficiencies in extant knowledge and by identifying research themes to be pursued longitudinally. The findings in this chapter are only a partial explanation of why the firms studied are able to compete effectively on international markets. It was only possible to explore the activities and behaviours visible and apparent to the respondent and the interviewer. Thus within such a study it was not possible to develop any deep insights into the nature of the firms that compete effectively on international markets. In order to fully explore fully the underlying nature of these firms, it was necessary to study them over a longer period of time.

The objective of studying the firms longitudinally was to explore inductively the themes, identified above, to develop insights into the nature of the firms studied and so inductively contribute to theory development. In Chapter 5, the reader will be introduced to each of the firms followed longitudinally. The chapter sets out the context in which each of the themes identified will be subsequently explored. In the chapters following, the role of strategy development will be explored, and the role of relationships in achieving competitive success on international markets will be examined.

As will be explained in the following chapters, an evaluation of the longitudinal data led the author to the view that is was necessary to seek explanations as to the nature of firms that effectively compete internationally from the organisational learning paradigm. In the final chapter, the analysis is synthesised and theory development of the nature of SMEs competing effectively on international markets is proposed.

Chapter 5: An Introduction to the Firms Studied Longitudinally

Introduction

This chapter introduces the reader to each of the six firms studied longitudinally and briefly explores the events and challenges they faced over the time period they were studied.

A sample of six firms was selected to study longitudinally to seek an understanding of the nature of SMEs that competed effectively on international markets. The rationale for studying the firms longitudinally, and for the choice of firms, was fully explained in Chapter 3 and so will not be repeated here.

The unit of analysis in the research undertaken for this thesis was the senior manager(s)/owners interviewed. In this and subsequent chapters the name of the firm to whom these individuals belonged is often used to denote the articulated ideology of the individual interviewed. The objective of this chapter is to introduce the reader to each of the firms studied longitudinally and to examine the opportunities and challenges the firms faced in their international markets, over the period of the study from the viewpoint of the respondents interviewed. The aim, therefore, is to set out the context for the future analysis of the research themes identified in Chapter 4.

This chapter should be viewed as a precursor to the analysis of the research themes to be debated at length in the chapters following. The intention in this chapter, is merely to present an *ideographic interpretation* (Skrtic, 1985, p.199) of the events followed, in terms of the particulars of the firm themselves rather than in terms of any broader analysis. There is no attempt by the author to analyse critically the material presented with extant literature. The objective in the verstehen tradition is to build an account of the key developments within a firm in their international markets over the period of the study from the perception of the person being interviewed. The writing of such a chapter would not have been possible without a relationship of trustworthiness being formed. As such, the chapter itself provides evidence of the relationship formed between author and the firms studied. Furthermore, each of the accounts presented in this chapter was reviewed and verified by each of the participants, and the credibility of the interpretation validated by them.

In the traditions of grounded theory, the themes that emerged from the analysis of the initial interviews directed the selection of the firms to be studied longitudinally. The priority was to obtain a sample that would enhance theory development by being potentially rich in information. Information richness was defined by the research themes identified in Chapter 4. The six firms in the sample, therefore, were not picked because they were viewed as the most successful of the firms identified, but because they offered a potential rich source of information, central to the purposes of the study (Patton 1990).

This chapter is an account of how they managed their activities in their international markets, during the time of the study and how they dealt with the challenges faced. The chapter, therefore, only offers a partial explanation of the data generated in that it simply explores the relevant phenomenon within the *bounded context* (Miles & Huberman, 1994, p.25) of the subject area being investigated for this thesis.

B F Rail

B F Rail is based in Wath Upon Dearne in South Yorkshire. The company in 1999 employed a workforce of 12 people and had a turnover of approximately £1.5million. The company manufactured hot and cold pressed track components for rail systems. Traditionally these components served the UK mining market. The major customer of the firm, prior to 1990, was British Coal whose large number of mines, in 1985, accounted for 95% of the firm's turnover.

In the period 1985 to 1990, British Coal underwent a major mine closure programme. Thirty-eight of the mines to which B F Rail supplied rail components closed in this period. This constituted lost sales of £500,000 per annum.

Mr Baker, the Managing Director who participated in this study, joined the company in 1986 as one of two partners in the business. In 1990 the original partner in the business sold his share to a financier. The financier became Chairman and Mr Baker was appointed as Managing Director. On taking up the appointment the new Managing Director, carried out an analysis of the company's operations and concluded that the competition in the UK was now so fierce, if the company did not diversify and widen the customer base, it would not survive.

The Managing Director also recognised two important factors crucial to the future development of the firm. Firstly, that whilst they had traditionally supplied rail components to the mining sector, their products were equally suitable for any tunnels requiring light railways. All tunnels in their construction phase were viewed as requiring light railways. Secondly, as a small company in a specialist niche market, B F Rail recognised, in order to diversify its customer base, it had to develop internationally.

B F Rail obtained the first international contract in 1990 in Germany. In the period 1990 to 1995 it built further international business in, the USA, Canada, Spain and to a lesser extent in Ireland. In 1996, at the start of this research study, B F Rail's international business accounted for 25% of its turnover.

B F Rail identified two target markets in which they could effectively compete internationally: industrial suppliers of railways and the tunnel construction industry. As a small company, the Managing Director viewed the major barriers faced to be the lack of resources and the lack of experience competing internationally. To overcome these hurdles B F Rail built an international strategy based on the principle of building a network of partners in the key sectors identified. An example of the partnerships established was the one developed with a supplier of steel for railway tracks to supply the complimentary components required by their customers. A number of partnerships were also formed with major construction contractors that helped B F Rail exploit the opportunities identified in the tunnel construction market.

Following this strategy enabled the company, not only to survive the collapse of the traditional home market, but also to develop a healthy and diverse international customer base that gave them the foundation for future growth. In 1996, B F Rail set the objective of, their international business accounting for 50% of their turnover by the year 2000. It was for such reasons as these that B F Rail was viewed as a potential interesting source of data providing a richness of information in both strategy development and the use of a network of relationships in competing internationally.

In 1997, in the relatively hostile climate of the increasing strength of sterling, B F Rail continued to build its international business. The traditional markets for B F Rail within tunnel construction had been within Europe and the USA.

The USA continued to be a key market for B F Rail. Their partner in the USA was McNallys, a tunnel construction contractor, and it was through them that B F Rail at this time built a presence in the Canadian market. From very small beginnings, the Canadian market grew to £65,000 per annum by the end of 1997 and, resulted in similar levels of repeat business in 1998 and 1999. B F Rail, in 1999 had two agents representing them there and had plans to further develop the market.

The European market proved to be more problematic. B F Rail's largest market in Europe had been Germany. The business had been based in construction projects to upgrade the infrastructure of East Germany, particularly in the building of tunnels for fresh water and sewage. In 1997, the decline of the political will to invest further, meant the withdrawal of funding for many projects. However, by networking the German contractors with whom they had been working, B F Rail secured new business in the North Sea region by acting as a subcontractor to the German company. Thus B F

Rail, in effect, partnered an overseas contractor in order to develop new international business.

In Spain, B F Rail suffered at the hands of, what turned out to be, an unscrupulous distributor who left the company with unpaid debts, which proved hard to recover. However, given their understanding of the number of European funded construction projects underway, B F Rail viewed it as a market where they needed to have a presence. By maximising on an opportunity presented through a major UK customer with operations in Spain, B F Rail identified a new potential distributor in Spain. The UK client carried out the role of introducing B F Rail to the Spanish distributor and was able to vet both parties for each other. B F Rail then built a new relationship to establish a well-connected presence in Spain. They then developed a joint marketing approach, which in 1999 started to achieve its first tangible outcomes.

B F Rail also continued to develop the market for the supply of track components for light industrial railways internationally. They failed to win expected contracts in Northern Scandinavia and Argentina but were successful in other markets, particularly Ireland and France. The major development in the industrial railway sector, however, was the company's expansion into Africa through a World Bank funded project in Angola. The strategy of the company was to develop the market through contacts in other markets. The route to Angola was through a German contact with whom the company had previously worked within the UK. The participation in the World Bank project signalled a step change in B F Rail's international profile.

1998 proved to be a critical year for B F Rail, and illustrated, how, to compete effectively a firm may need to overcome challenges from within the firm as well as in the market place. In the first six months of 1998 orders from international customers were down and there was a further decline in the UK market. Furthermore, the lease was about to expire on the premises. The Chairman also owned real estate in County Durham, which had become empty. The decision was made, by the Chairman, to move the company north to the empty premises and establish a new operation. The Managing Director was asked to move with the company. He refused and offered to buy B F Rail from the Chairman. There then followed an obviously an unsettled period, in which, Mr Baker considered the consequences of his plan and had to decide whether to develop proposals to raise the necessary finance.

Mr Baker made the decision to buy the company and secured the necessary finance from the bank. For Mr Baker this was not an easy decision,

> "for one week-end I thought, 'well, I've no right to put my wife through this, you know, we could lose everything that we've got, and also my children'. I thought, 'I haven't got the right to put them though it'; and I told my wife about it and she said, 'look don't be stupid - just go for it' - and so that was it."

Negotiations with the Chairman were difficult and time consuming. Eventually an agreement was reached *"at a Little Chef at Grantham"* and the company that Mr Baker had joined as a partner in 1986 became his.

Central to the thinking of Mr Baker, was the commitment, he felt, had been shown by the staff and his workforce in the first six months of 1998. This had been critical in helping the firm survive. His assessment of the market was that there was a temporary lull and that there were indications that initiatives taken and ground work prepared in the previous months would soon prove fruitful. His fear was that moving to a new location meant the core strength of an effective team would be lost and that even with an upturn in orders the business could fail in a new location.

In 1998 and 1999, B F Rail worked to refocus the business by developing into the national railway market. This necessitated new product development and the move into larger sized components than those used on industrial and construction railways. It also meant a new marketing approach based on direct negotiations with the national railways. France, Ireland and Holland were targeted as market opportunities. Nigeria and Angola were also identified as markets where investment was being made in the railway systems. In March 1999, B F Rail were awarded a major contract for £600,000 for Nigerian railways. This constituted a major expansion in business for B F Rail. In 1999, international business accounted for over 60% of their turnover. This constituted a 25% increase on the previous year. Interestingly the contract for the Nigerian railways came through a South African connection made in 1996, which, at that time, failed to lead to any business development in South Africa, but had been carefully maintained by Mr Baker over the three year period.

B F Rail was an interesting company for a number of reasons. Firstly, they showed a constant willingness to confront challenges, to learn and reshape themselves in order to overcome barriers. Top management showed evidence of a strong drive and commitment that translated into investment of both time and resources being put into international markets. The Managing Director showed initiative and resilience in overcoming the barriers faced by the company and ensured that staff developed the skills to meet those challenges.

Secondly, the direction the company chose to take was clearly defined and there seemed to be a depth of understanding of the niche market in which the company operated. The international strategy of B F Rail became more focused following the buyout of the company in 1998. That this had been further clarified became evident in the discussions that took place in 1999.

Finally, as the company progressed and gained more confidence, they maximised resources by developing relationships that enabled them to develop into new international markets. The World Bank project in Angola, the formation of closer alliances in Canada, USA and Spain demonstrated this. In 1999, the strategy of trying to build a portfolio of different types of relationships in different international markets was more in evidence than in previous years.

Flybait Ltd

Flybait produced and distributed a range of fishing tackle products specifically for the game and fly-fishing markets. In 1999 the company employed 17 people and had an annual turnover of approximately £1,300,000, of which 33% was derived from international markets.

The company sold exclusively to retailers and specialist distributors. Their principal communication vehicle in international markets was their catalogue. They supplied a large number of product lines including, fly fishing materials, tools and equipment, floatants & sinkants, fly boxes & tackle bags and a range of rods, reels, lines, nets and fishing products. Their flagship product line was a vast range of over 1500 exotically coloured fishing flies.

The company started exporting in 1986, a year after the company was formed in 1985 in Kilnhurst, South Yorkshire. It was owned and managed by a father and son team who were Chairman and Managing Director respectively. The Managing Director was the primary respondent in the study, however, the Chairman was present in two of the interviews. In 1996, the major international markets for the company were France, Sweden and Germany. Between them, these markets accounted for 47% of the firm's international turnover. The remaining international turnover was spread over thirty different countries.

The customer base of Flybait in any one country was very small, which is why they thought it important that they operated in such a large number of markets.

> "we are in a niche market, so we need to be widespread".

As a result, the business consisted of dispatching approximately 8,000 consignments each year. The company operated entirely on trade credit cards or bankers drafts. This meant Flybait lessened the risk of non-payment. The company shipped all its products from its premises in Kilnhurst directly to the customer. This enabled them to minimise investment in building an international distribution network. Flybait guaranteed speedy deliveries world-wide by using express couriers. This was carefully monitored.

According to the company, carriers failing to meet the delivery time were quickly replaced.

Flybait, interestingly, did not perceive themselves as a company exporting to over thirty countries, but as a company that operated in a global niche market that needed an efficient and flexible distribution strategy to meet its needs. An important foundation in the company's success in international markets was, therefore, their ability to build a competitive advantage by being fast, flexible and efficient.

Without heavy investment in overseas visits and expensive in-depth market research, Flybait considered, they had developed a highly innovative and proactive international strategy. They attempted, in the view of the Managing Director, to build a strong brand image by offering good quality products, fully guaranteed with a no quibble returns policy. This meant the customer, whether domestic or international took little risk in buying the products. The continued success of Flybait in their international markets, the innovativeness of their international strategy and the vehicles they used to achieve an international presence made Flybait a potentially interesting company to study. It was for these reasons Flybait was included in the sample of companies to be studied longitudinally. In the initial interview there was evidence that the company was planning a number of interesting initiatives to further build a highly focused international strategy that maximised the use of limited resources, both of time and of money.

One of the main foundations on which Flybait built their international success was their cheap but effective distribution to international markets since it began in 1986. In 1996, at the start of the study Flybait had recently embarked on a new development by the establishment of an alliance with an assembly operation in Kenya for the production of the *Flies Collection.* This was the range of the exotically coloured fishing flies. From 1996 these were all assembled in Kenya. This allowed Flybait access to cheaper raw materials and meant the cost of the assembly of the flies was far less than if the process was carried out in the UK. The flies once assembled were shipped to the UK before being distributed world-wide. This allowed the company to achieve a competitive edge internationally in the supply of specialist fishing flies.

This was the start of a developing strategy evident in the period 1996-1999, of developing and widening the product range. In all the product lines, the company considered it attempted to provide added value through innovative product design. However, the products supplied by Flybait were simple and easy to copy. The company therefore, placed a high priority in investing in new product development in order to maintain their innovative edge. This involved the development of new designs as well as the diversification into new areas of fishing tackle products. In 1999 the company further widened its portfolio to include coarse fishing tackle, general fishing equipment boxes and clothing for the fisherman/woman. This signalled a new strategic direction for the company.

The Kenyan alliance also signalled the start of a period when Flybait worked intensively to develop a number of closer partnerships in the supply chain. In the USA, Flybait in 1997, examined whether they could expand their presence in the market by buying a distribution operation to service retailers directly from within the USA. They also began to form closer partnerships with the freight companies and couriers they used. By 1999, whilst they still had not achieved the objective in the USA they had developed a system of using *preferred carriers* and worked closely with these partners to streamline working practices, enhance efficiency and reduce costs for both partners. Flybait held the view, that in an international environment, proving increasingly competitive, they needed to invest in the efficient management of their relationships within the supply chain in order to remain competitive:

> "We're going to compete in the future as a supply chain"

For a small company this was a difficult objective to achieve. Flybait carefully targeted the operations with which they decided to build relationships and then worked with the company to develop a long term working relationship to help both parties cut costs and perform more efficiently.

The company also endeavoured to build closer relationships with their trade customers through loyalty discounts, incentive schemes, newsletters and supporting promotional activity within international markets, all of which were achieved on a relatively low cost basis. An example of this is early development of an Internet site in 1998 through which they now sell to distributors world wide. The initial objective of this was to build an easy communication route between Flybait and its customers. In 1999, the view of the managing director was that the investment was beginning to reap rewards and had been used by a significant number of customers to order products. The site was developed in-house after investing in the necessary training of designated staff. This ensured Flybait had the ability to, not only set up the site, but to build and maintain the site in the long term.

The company also invested heavily in producing a good quality promotional catalogue to develop a quality image world-wide. The decision was made to produce one catalogue in English so that Flybait could concentrate resources on enhancing the quality of the catalogue. In February 1999, Flybait launched their new spring catalogue showing prices in Euros, Sterling as well as US dollars, yet again, in their view, illustrating their commitment to being innovative and staying ahead of their competition. The pricing in Euros was obviously a response to European developments. However the decision to price in US dollars was made in response to the consistent strength of sterling.

In the period 1997-1999 a major obstacle Flybait had to overcome was the strength of sterling against the currencies of the markets in which they operated. The company estimated in 1998, there was a 25% swing against them in their export markets. Flybait defended themselves by a two fold strategy: firstly, by aggressively launching a product extension strategy and setting new prices which accounted for the strength of sterling and, secondly, by setting up a price list in US dollars and invoicing in US dollars rather than sterling. Despite the strength of the sterling, Flybait managed to maintain overall international sales.

Flybait saw themselves as a co-operative organisation and felt quite strongly that their advantage lie in the high motivation of their staff and the sense of team spirit they endeavoured to build. The outcome of this was, in the opinion of the Managing Director, a highly loyal staff, where everyone was seen as an integral member of the team. It was of importance to the Managing Director that he was seen to be successful in these efforts by not only the internal staff, but the network of retailers and distributors to whom they supplied. For a small company this, he saw, as being vital in building competitive success internationally.

Fox Safety Lamp Ltd

Fox Safety Lamps manufactured and supplied safety lamps. Based in Sheffield they employed approximately thirty people. Their traditional market was the UK coal mining market. In the 1960s the company restructured its marketing approach. Rather than purely supplying lamps to the mining industry, the company began to develop lamps for new sectors of industry where hazardous conditions meant industrial safety was a priority issue. By the 1980s the company was offering a range of hand lighting products and started to aggressively market their products internationally.

Their product range included, *intrinsically safe*-torches, hand lamps, tracker lights, hazard lamps, flood lamps, and turbolite lamps, as well a range of chargers and accessories. Fox also had a strong commitment to building a high level of quality in all their processes:

> "It goes through everything, from purchasing to inspection to sales, if you think an order is ambiguous then you must check and clarify, in our sort of business the onus is on us. If somebody wants a safety lamp for a hazardous area application, there's no use in saying yes, we make a good safety lamp, it's good for 99% of all known explosive gases, here you are. He could be working on the 100th - something particularly nasty."

The company further added value of their products to their customers by offering a guaranteed 48 hour delivery service on all products and spare parts. Fox defined their market as:

> "the personal and portable safety lighting equipment for use in potentially explosive atmospheres."

There were two main market sectors served by Fox: marine / off-shore and shore-based industries. Off shore, Fox supplied the oil refining industry and the ocean going tankers transporting oil and petro-chemicals. The shore-based industries served included utilities, such as, fire-fighting, water treatment, gas distribution. However their products are also used by manufacturers of food, pharmaceutical products and breweries.

Between 1980 and 1996, at the start of the study, Fox had consistently and steadily built their international business. In 1996, fifty per cent, of their £2 million turnover was attributed to their international markets. At this point Fox viewed themselves as a proactively developing their international markets. However, in 1996 the Managing Director expressed the very clear aim of making the step change to having a well established long-term international business strategy. The strategy Fox Safety Lamps developed and pursued to achieve their aims was followed in the study. The respondents in the study were the Managing Director, together with the Export Sales Manager, following his appointment in 1997.

Fox was an interesting company because of their strong record of gradually building their international sales over the decade prior to the start of the study. Central to this had been their investment in new product development and the capability this had given them to offer high-quality portable safety lamps for use in the diverse range of hazardous industries identified earlier. The substantial investment in research and development also enabled Fox to build the capability to respond speedily to changes in both customer requirements and international safety legislation.

In 1997, the Managing Director stated his objective was to build a profile in all target markets. The international business strategy he developed was built on a basis of targeting markets with a significant utilities infrastructure, where changes and developments in safety attitudes were taking place.

Fox prioritised the European Union as the primary market. One of the reasons for this was the introduction of the new *Harmonised European Standard* for the design test and certification of electrical apparatus in hazardous atmospheres such as safety lamps. As Fox had already ensured their product lines met the new standard, they were in a strong position to compete against European competitors. Secondly, Fox identified, for medium-term development, the Eastern European countries preparing to enter the EU. The company aimed to secure a competitive position in these countries as they restructured their industries to comply with the European legislation. Finally, South America was identified as a market for long-term development in anticipation of the restructuring of oil and other industries as the South American economies developed.

> "The market is being totally transformed since denationalisation and deregulation started. Brazil is never going to be massive - but at least we're in on the ground floor. Our products are now registered with the safety inspectorate in Brazil."

The European Union was also seen as a priority due to the changes to the market brought about by the ATEX Directive, (*Explosives Atmosphere Directive, ATEX, 94/9/ EC.*) An important implication of this directive was the stipulation that from 30 June 2003, every new safety lamp sold and supplied would need to be Conformitée Européenne (CE) marked in accordance with the ATEX Directive.

Fox were highly proactive in ensuring their products would meet the new requirements, and believed they were probably the first of the safety lighting producers to obtain the CE mark under the new ATEX directive. This, they considered, gave them a competitive lead in the European market, that the company were keen to maximise. According to Fox, meeting the new requirements involved the company in rethinking its entire product portfolio, redesigning products and re-tooling to manufacture new designs.

A critical event in the development of the European strategy was the appointment of the Export Sales Manager in 1997, with specific responsibilities for Europe. This constituted a step change for the company in resourcing their international markets and also signified a change in attitude. In the early interviews the Managing Director had clearly signalled that, language skills, had not been viewed as important by the company:

> "...We are dealing with, on the whole, individuals who are highly trained, qualified technical degree status and all our European friends speak very good English and it has never been a serious problem."

Central to the change in attitude to languages was the realisation that it was important to reach the shop floor operatives, as well as the senior management of prospective organisations:

> "Although a lot of people that we sell to know English, a lot of the engineers never speak English. If you want to reach the shop floor and the bloke that's actually using the lamp then you need to send things in their language. If he's using a torch he can tell his boss there's a better one."

An important development, then, was the development of multi-lingual promotional literature and maintenance instructions on all Fox products. By 1999 these had been published in 10 European languages as well as Russian, Korean, Japanese, Chinese and Arabic.

Between 1990-1995, Fox suffered a number of difficulties through, in the view of the company, inadequate commitment by distributors in their international markets. In Spain, for instance, they failed to obtain payment for products from one distributor and the Managing director expressed the view that he had been dissatisfied with the execution of promotional programmes as well as by certain aspects of the standard of services offered. This resulted in the ending of the agreement, leaving the firm without any representation in that market. The establishment of appropriate partnerships, therefore, was seen as a major challenge facing the company in their European markets.

The benefits of the multi-lingual skills of the new Export Sales Manager very quickly became apparent to the company in their efforts to build closer relationships with their European distributors. In the three years of the study, Fox strengthened ties with distributors in France, the Netherlands, Belgium, Switzerland, Italy and Denmark and established new distributors in Sweden, Norway and Finland to service the various industrial and marine sectors.

In 1998 the company introduced a number of measures to improve the process of selecting and evaluating potential partners. The company, together with the Export Development Counsellor from the local Business Link, developed a more systematic approach to the identification and evaluation of distributors. With the availability of the new resource of an Export Sales Manager, they also followed a proactive policy of visiting distributors and developed closer working relationships within the supply chain. The additional management resource also meant they were able to expand their international base, whilst maintaining the strength of relationships in existing markets.

In the period 1997-1998, through a programme of marketing research, Fox identified market opportunities in the Baltic States, Poland, Hungary and the Czech Republic. In preparation for membership of the EU, these countries were undergoing a process of ensuring their industries complied with EU health and safety regulations and, as such, required assistance in upgrading safety equipment. In 1999, Fox had established a number of partnerships in this region with local suppliers of safety equipment to develop a base on which to build business in the respective markets.

In 1999 the Fox Safety Lamp Company felt they had made significant progress in the achievement of their objectives. They had a turnover of approximately £2,800,000, of which over sixty per cent was generated from international activities. The company growth in the period of the study came predominantly from international markets and, they now had customers in over seventy different markets. The most important region was still the European Union. Eastern Europe was developing, whilst South America was still to realise its potential for long term development. Other important markets for the company included North America and South East Asia.

Stadium Ltd

Stadium, originally, were high quality precision forgers to the cutlery industry in Sheffield, an industry they had serviced for over one hundred years. In the 1970's when the cutlery market declined, the company diversified into the aerospace market supplying precision forgings to aerospace engine manufacturers, such as Rolls Royce in the UK. They specialised in small, bespoke forgings that required a high level bespoke design service. The company viewed themselves:

> "as a tick on the backside of the multinationals."

The company in its present form was established in 1980 when, the ownership of the company changed. A financial holding company became a shareholder and another small local precision forge was acquired. In 1996, Stadium had a turnover of approximately £20 million and employed just over 200 people.

The changes in 1980 signalled a new era of development for the company. It was from this time that Stadium actively developed business internationally, prior to 1980 their business had been entirely based in the UK. The company also, in the 1980's, developed into the medical implant market, a completely new product sector for them. In the fifteen years prior to the start of the study, Stadium consistently and steadily built an international profile in both sectors. The USA was the first market developed. Since 1990, the company actively developed the European customer base, particularly France and Germany and to a lesser extent, Spain, Italy and Holland. In 1996 the company had prioritised customer sectors in Japan and the Far East for the next stage of development. Their objective was to achieve a world-wide profile in the niche market of offering specialist bespoke forging services to the aerospace and medical implant sectors.

At the start of the study, Stadium had customers in approximately twenty countries. Over fifty per cent of their aerospace business was internationally based and over forty per cent of the medical implant business was outside the UK. Stadium was an interesting company to follow longitudinally. They had shown an ability to effectively compete internationally over a sustained period and had built a strong international profile. Their capacity to overcome challenges and re focus the firm to meet the changing demands of the market was also viewed as a particular strength. In the initial interview in 1996, there were also clear signals of a number of change events occurring within the company and their international markets that could potentially furnish the study with a rich source of information in the themes identified. The two respondents who participated in the study were the Aerospace Sales Director and the Customer Services Manager.

Both the aerospace and the medical implant markets were considered to have a fairly stable client base by the respondents. Stadium's marketing strategy had therefore focused on generating repeat business from existing customers. The client base in both sectors consisted of major multinational players with whom Stadium dealt direct, with no distributors or other intermediaries. Many of their clients operated on a global basis with subsidiaries around the world. Building and managing long-term relationships was, therefore, a key part of the international strategy. Business with a subsidiary in one part of world often led to new business with other subsidiaries.

The provision of a quality service, therefore, was paramount and was why the company invested heavily to ensure they met the requirements of ISO 9000. This was considered by the company, as imperative, for the company to achieve *approved supplier status* to many of their international clients.

In 1996, the company began the process of an internal reorganisation to enable them to be more responsive to customer demands and develop clearer communication lines to their international customers. There was a separation of the sales team into the two market sectors (aerospace and medical implants) each with a sales director responsible for sales world-wide. There was also major shift in the way existing customers were handled. Previously the firm was organised to achieve a focus of managing the internal production process. Stadium worked to change this to an external focus of managing the process of a customer's order. Each customer was allocated a direct contact responsible for overseeing the progress of their order who reported to a Customer Services Manager, in charge overall. New technology was introduced to enable customers around the world to make an input into the design process of their orders and for feedback to be easily relayed back to them. A training programme was introduced to ensure all staff in the company were trained to deal with international customers and any enquiries that came into Stadium. Thus, in the view of the managers interviewed, the company worked extensively to build effective communication links with customers to enhance the building of closer relationships with them.

The commitment to building close working relationships with customers could also be seen in the way they operated their international payment system. Stadium operated on *open accounts* with the majority of their international customers. On international markets this would normally be between thirty and sixty day basis depending on the country. They operated on a *pro-forma* basis for the first three or four transactions with any new customer, after which, normal accounts would be opened. Stadium seemed to have a similarly flexible attitude to the stage of the buying process at which they priced products for international markets. Their preference was *ex-works* but frequently the preference of the customer was to price to the *point of destination*. This of course meant their attitude to the currency used for pricing had to be equally flexible.

> "At the end of the day, the way customers trust you is really the only difference between one company and another in our industry. We all say we're wonderful at design but perhaps there's half a dozen people can do it, it's the sort of service that you give to people to back that up where you compete."

In 1996, Stadium discussed their efforts to develop business in Japan and the Far East. In late 1996, after eighteen months of a sustained campaign and many visits, the company was successful in securing orders for aircraft forgings in Japan. The company viewed this as a major breakthrough in a difficult and competitive market. However, in the view of the company, the process of achieving the contract proved to be time consuming and very exacting for Stadium. They had to undergo a complex process of quality assurance inspections not only on product quality but also for the company procedures they had in place that guaranteed the delivery promises. Stadium had to make several presentations in Japan and the company was required to subject itself to a complete audit of its operations. The company however, viewed this as an important learning experience and a significant step in developing a presence in the Far East.

Between 1996-1998 the contract went very smoothly and all parties were satisfied with its progress. In 1998 the value of the Japanese Yen began a period of decline. At the same time UK sterling was increasing in strength. An important issue impacting on all the SMEs studied which will be explored further in Chapter 6. For Stadium it meant the prices agreed in 1996 were no longer seen to be appropriate by the Japanese and so they sought to renegotiate terms for the next contract commencing in 1999. Stadium was asked to adjust its prices to a level that they viewed as unacceptable. They made the decision in 1999 that the demands of the Japanese would render the contract unprofitable and despite the strategic significance of the business, it would be better, to lose the contract than tie the company into a potentially unprofitable situation for the next three years. They held the view that it was of more importance that they maintained their position as *a high quality producer in the niche of precision forging* and not be drawn into a competitive battle of competing on low prices. They lost the contract and the Japanese competitor, who they beat in 1996, was awarded the next three-year contract. Stadium in 1999, saw it as important that they followed a watching brief for the short to medium term. They, therefore, closely monitored the progress of the new supplier to ensure they would be alert to any indications that he was failing to deliver.

Between 1996 -1999 the US market was actively developed by Stadium. The company had a strong presence in the USA but viewed it as having a greater potential than they had been achieving. This was viewed as particularly true in the medical implant sector. In 1997, the Sales Director made frequent visits to the market without making the progress thought possible. Many of the major suppliers of medical implants were US based and it was thought greater commitment had to be shown in the market itself. In 1998 the Sales Director (Medical) spent several months in the market, this was viewed as having achieved tangible results. In 1999, therefore, the company decided to invest more heavily in the US by sending the Sales Director there on a semi-permanent basis to set up and staff a sales office. This meant the company was in a stronger position to build the market base. It also constituted a step change for the company in the development of their international business. The decision to place a senior member of staff in the lead market for their products suggested a long-term commitment to developing their international portfolio.

In the period 1997-1999, the European region, caused a number of difficulties for Stadium, particularly the Netherlands, France and Germany. In 1998, the company departed from the company policy of dealing direct with all customers by the appointment of a multi-lingual sales agent based in the Netherlands. This they viewed as necessary to give them the required capability to deal with European customers and to more proactively develop relationships in the European region.

In 1999 the company considered a major challenge facing them was the possible move of production overseas by key UK customers. In 1999, they assessed the impact of such a move on their business, in order to decide how to react. In the final visit, they expressed the view, that the next major growth in international markets could be by following their customers to their new production bases overseas.

> "There could be the scenario where a customer decides, well we're not going to have this piece machined in Huddersfield, we'll have it machined in China. So instead of the man in Huddersfield buying the forging the Chinese might buy it. So we've got to see in the next years that we're supplying to China."

The above quotation is illustrative of the view of Stadium, that the process of the development of the international strategy was one of being reactive and proactive at the same time. They saw themselves as proactively looking to develop new customers, but they constantly ensured they had the information base on which they could quickly react to changes and developments in their international markets.

> "Everybody makes noises about being proactive and meeting the market but a lot of the time you've got to be very reactive."

Thus, Stadium viewed themselves as endeavouring to be innovative and trying to develop new ideas and new solutions in the market place, whilst ensuring they had the procedures in place to enable operations, within the company, to be tightly controlled.

In the period of the study, Stadium faced a number of challenges in its international markets. It seemed, to the author, that the company was always prepared to face up to the problems it met. They were prepared to make hard decisions whilst they also showed the flexibility to reorient the company to ensure it continued to compete effectively. In the period of the study, they continued to expand their turnover in international markets, particularly in the medical implant sector in the USA and, in the view if the Sales Director interviewed, they maintained an overall growth in profitability.

Thompson Ltd

Thompson was established in 1872 in Sheffield, originally as a steel stockholder. The company, in 1999, had a turnover of approximately £18 million and employed 165 people. The company's competitive advantage was based on its ability to offer the customer value added benefits over and above the normal stockholding function. They concentrated on the supply of high grade specialist steels in whatever quantity, finish or size, was required by the customer. In doing this, Thompson differentiated themselves from other larger suppliers for whom such orders would be uneconomic. There had been substantial capital investment made by the company to develop the capability to offer complete flexibility to the customer in terms of sizing, finish and treatment of steel products. Thompson viewed this capability as being unique throughout the world, in the niche market in which they operated.

Prior to 1985, Thompson had traditionally supplied the general engineering market within the UK with only incidental orders from overseas. In 1985, David Thompson, the Chairman and Managing Director appointed Mr Clarenne, a Belgian national, to try and build a presence in the French market. Following the success of Thompson in this market, Mr Clarenne was then appointed as Export Sales Director with the specific remit of developing the international profile of Thompson:

> "David said, 'right, we've got to export. I think there is mileage in it, I'll leave to you,' and that's how it started here."

It was the Export Sales Director that participated in the research study.

Between 1985 and 1996 at the commencement of the study, Thompson consistently expanded their international business. In 1996 their international activities generated a turnover of £6 million per annum and they had customers in over 30 different countries. Their key markets were in Europe, South East Asia and the Middle East.

In developing internationally, Thompson had targeted firstly, the oil and gas industries and secondly smaller manufacturers in the engineering sector, who required specialist steels in small quantities:

> "We have a lot companies, a lot of customers world wide who don't employ more than twenty people, who've never imported before, Jamaica, Pakistan- you name it."

Thompson perceived themselves as operating in a niche market and frequently had only one or two customers in any one country. Consequently, the export sales director considered they had built their international business not on a country by country basis, but by targeting companies within sectors whom they identified as potential customers.

Prior to 1996, Thompson had serviced all their international markets from the one site. At the commencement of the study the company felt quite strongly that if they were to maintain their ability to compete internationally it was necessary to invest in operations overseas to improve the firm's capability to service customers world-wide:

> "If we want to be nearer the market, if we want to be more competitive, we have to be where it happens. The transit time is a big handicap."

Thus, in the period 1986 to 1995, the company proactively developed their international business, consistently and successfully. In 1996, there were clear signals in the initial interview that the company were about to embark on a period of interesting strategic development with regard to their international markets that could potentially provide rich insights to the research study.

The Export Sales director considered the growth of the company's international business had been developed from a strong commitment to international expansion and based on a very clear strategic mission:

> "to make it as simple for the customer, wherever he is, to buy from us as he would buy from his local supplier"

and a company motto of:

> "world class, world wide supply"

Mr Clarenne viewed the articulation of this mission as fundamental to the company's success in international markets. He firmly believed that any company, whatever their resources, needed to build an international business based on a clear direction, added value to the customer, flexibility and effective communications with the customer, irrespective of their location:

> "it's about attitude and you've got to have the right attitude. You've got to be focused with the right motive and the right attitude and along the way you've got to learn."

Thompson felt the company had a thorough understanding of the markets in which they operated. They carried out extensive market research in international markets, all of which was conducted in-house. By doing research in-house, the company believed they achieved a more intrinsic understanding of the customer's requirements and of the performance of the company relative to their competitors.

However, whilst the firm had a formal programme of researching international markets, the export director stressed the importance of informal networks in generating meaningful knowledge. It was these, he suggested, that enabled the firm to build a competitive edge internationally. The firm believed knowledge gained through other sources would be distorted in some way and not necessarily relayed to the company accurately.

Carrying out their own research was also seen to be a mechanism for building links with customers. They used no agents and dealt directly with all their customers. Thompson considered, an important aspect of the firm's capability to compete internationally, was the ability they had developed to communicate directly with the customer. This was achieved through two means: firstly, through the introduction of flexible working patterns by staff dealing with international customers. Staff often contacted international customers at a time convenient to them, in their own working hours. This meant staff were sometimes required to contact customers in markets such as, Australia, in the middle of the night, from their homes, using mobile phones.

Secondly, all international sales staff recruited were skilled linguists. Thompson had, since 1985, built the capability to communicate to customers in the languages of virtually all the key accounts. This meant their international customers dealt with Thompson personnel skilled in the language of the customer. Mr Clarenne, himself multi-lingual, believed this was a key principle in achieving success on international markets:

> "We do business with people, not with machines and it's down to communication. If you speak the same language, you will get the right information. If you can't communicate,

> you can't learn, If you can't speak Mandarin when you're negotiating with the Chinese, there's no way you can learn anything about them."

The firm also followed a policy of flexibility in the payment terms they offered to international customers:

> "We quote in their currency. We give them the payment terms they desire, we work on open terms, no letter of credit or anything like that, not one of our competitors in the world does that."

In addition to this, Thompson fully guaranteed delivery of items and aimed for 100% delivery performance. Whilst this was not achieved, the company claimed to meet over 95% of delivery dates. The company had identified speedy delivery and the flexibility of their product offering, as a key selling point:

> "We work in the oil and gas industry. If one component is late, a rig may stop drilling and it costs millions of dollars a day."

The company quoted POD (Proof of Delivery) and insisted on the same from the hauliers and shipping agents used.

In 1996, the company made the decision to invest in two new operations in order to further develop and build their international business. This was seen to be a major strategic development for the company and signalled the beginning a period of significant change in the way they managed their international activities. The decision was made to set up two new operations, one in Malaysia and one in the USA.

Prior to 1997, Thompson had had relatively little success in securing business in the USA:

> "We could not compete, and America being America did not want to buy from us. The irony of it is that all the manufacturers of oil equipment are American ......we were working and still are with their subsidiaries world wide."

In April 1997, the company made the decision to establish an operation in the USA and bought a small steel stockholding company in Houston. This was viewed as an essential step for the firm to have a base from which it could build a profile within the market and develop potential US business. In the longer term Thompson hoped the base in the USA would give them the means by which they could expand into South America.

For the first eighteen months, between 1997 and late 1998, the operation showed substantial promise and an effective relationship was built with the management of the US company. The US business expanded and the initial objectives set were seen by the company to have been achieved. However in 1998, the US oil industry started to encounter difficulties, particularly in the Gulf of Mexico, Williamson's traditional customer base in the US. In November 1998, therefore, plans to use Houston as a base to expand operations into South America were delayed.

In Malaysia, the objective was to develop a new factory, from which the customer base enjoyed in South East Asian market could be further developed. The land was bought in 1997 with an expected completion date for the factory of July 1998. It was envisaged that the plant would be fully operational by 1999. In early 1998 the start date for building of the factory was delayed following the collapse of the Malaysian economy and the sharp depreciation of the currency. In 1999 the project was put on further hold following the downturn in oil exploration activity in the South China Seas. However, the company remained adamant that their strategy remained the same. The investment remained on hold, but the company believed an operation in Asia was vital to their plans to be considered a world-wide supplier:

> "It is a temporary set back. It doesn't reflect in any way a change of policy, a change of strategy. It is more for financial reasons and also to see how the markets recover before making a very vital decision in terms of financial investment."

In the meantime, the company continued to build relationships in Malaysia with regular visits and continued to ensure the company has a firm knowledge base in the area through the networks built.

As well as the downturn in oil exploration activities and the collapse the South East Asian currencies, Thompson, in the period 1997-1999, also had to contend with a strong appreciation in UK sterling. Interestingly, prior to mid 1998, the strength of UK sterling had little impact on the company's performance in international markets. The company, to a large extent, was able to balance the impact of the rise in sterling against declining costs of imported materials. However, in the period 1998-1999, the combination of the strength of sterling, together with the collapse of the South East Asian currencies and the downturn in oil activity in the US meant Thompson were facing serious challenges in all their international markets.

Throughout the development of their international business the company had considered it important to follow a policy of achieving profitability through maintaining high margins built on the added value offered. In the downturn of activity, stringent controls were placed on costs and in 1999 a reassessment was made of all the activities within the company. The priority of the company was now to ensure that within the diminishing world markets, Thompson still outperformed its competitors in key international markets and that their performance remained positive relative to their competitors.

Mr Clarenne, the Export Sales Director however, whilst agreeing:

> "right now, if we are very honest about it, it is not the best time"

still maintained that the company remained quite positive with regard to their future international development.

Thus, in the fifteen years of the development of its international business. Thompson had moved from a position of sporadic involvement in international markets to having a well-established international business. In the period of the study they had followed a strategy of further international development to fully establish themselves as an international competitor. Whilst a number of difficulties in their international markets were clearly apparent, at the conclusion of the research study, the strategic objectives of the company remained clear and progress had been made to the achievement of those objectives.

Williamson Ltd

Williamson was established in 1835 in Sheffield. The company produced and supplied quality knives and associated cutlery products. In 1999 they had a turnover of £14 million and employed approximately just under 200 people. The company started to export in 1980, but only seriously began expanding their international business in 1989:

> "We decided we were going to really spend time and dedicate ourselves, it's since then that we developed."

International markets in 1999 accounted for approximately 40% of the turnover of Williamson. They supplied to over forty international markets. The firm viewed their markets as an *onion:*

> "Our policy is really to start off with the core market, the UK, but then we see Europe as the next layer of the onion, and then further afield, South America and Japan as the outer layers."

The initial interviews of the study were carried out with the European Sales Manager. When she left the company in 1997, Mr Noel, who had been with the company several years was appointed as, International Sales Manager, a new position created in 1997. He took over the role of respondent allowing for a wider reflection of the company's international operations. In late 1998, Mr Noel was promoted to the position of International Sales Director.

Williamson considered their ability to innovate and maintain a technological lead in the niche market of *edge technology* was a key factor enabling them, to firstly, build their international profile and then to maintain their competitiveness internationally. Their initial success internationally was considered to be due to the launch of a new kitchen knife, designed by them, that never required sharpening. New designs followed on from this initial success. The firm designed everything sold by it and the European Sales Manager considered the company had the research and design capability to develop and adapt its products for the varying needs of international customers throughout the world. Successful examples given of product adaptation included special marmalade knives in Switzerland, a bread knife with an angled handle for the Nordic sector and a special stainless steel knife for the Japanese market.

Building an in-depth knowledge of the markets being targeted was also viewed by Williamson as fundamental to their international competitiveness,

> "We do a lot of research, that's why we're successful. We tend to think that if you don't know the market, you can't make a proper effort to get into a market, so that is something we do concentrate on."

The firm undertook research on a regular basis within existing markets and those they were aiming to develop. According to the company, primary research studies, such as consumer value surveys, to keep in touch with customer requirements, were conducted at least twice a year in each major international market. Secondary data analysis was carried out on an ongoing basis and the international sales department employed a marketing co-ordinator who had specific responsibility for this role.

The managers interviewed, held the view that the international team had worked hard to develop good working relationships with distributors and agents in international markets. They viewed relationships as the stepping stones through which their international business was built. An example given, of the commitment to building relationships internationally, was that of the European Sales Manager spending four years based in Germany, 1990-1994. Germany had been identified as a primary international market. The objective of the company had been to work closely with the German distributor, in order to build the relationship and so develop the German market.

Williamson was seen as an interesting company to follow longitudinally. They had successfully developed a strong international business by proactively building an international profile over the previous seven years. They had been successful in the international markets in which they competed and had built an interesting portfolio of relationships across their international markets:

> "A network between countries has been invaluable for us."

In the initial interviews it became evident that, whilst the company considered the profitability of international markets greater than that of the UK, it was currently carrying out a review of its international operations and changes were considered to be imminent. It was thought, therefore, that Williamson could potentially be a source of interesting data that would give greater insights into the nature of firms competing internationally.

The company operated tight financial controls in all their international markets. The management control systems utilised enabled the company, when negotiating deals to have instant access to centralised information. This, in the view of Williamson, enabled them to negotiate deals ensuring margins were maintained and accurate costings were quoted. Such systems were seen as a vital part of building international business.

The control systems set up, also meant the company were able to maintain a vigilance on the profitability of its international portfolio. In 1996 an analysis of their product portfolio across their international markets was carried out. The conclusion drawn by the company, was that the firm had a number of strong brands which were highly profitable, they also had a number of weaker brands, that whilst they contributed to turnover, they contributed little profitability:

> "80% of our profits came from 20% of our products, but we had a huge plethora of products which returned little profit."

Thus, whilst the company offered flexibility, small minimum orders and short delivery times in their international markets, the conclusion drawn, was that they were not always achieving sufficient profit margins. This was proving potentially costly to the company. Furthermore, there was a fear that the existence of so many brands could lead to confusion in the market place and a diffusion of the international brand identity that Williamson was trying to build.

Between 1997 and 1998 there was a restructuring of the European operations. The restructuring took place on several levels. In some countries, for example Spain and Sweden where, because goods had been sold on consignment, distributors held huge stocks, the agreement was redrawn. The distributors could now only order stock against actual orders. In some countries, such as Belgium and the Netherlands, exclusive distributor agreements were granted. In Italy, Williamson operated a wholesaling operation. They owned a warehouse in Italy, had a sales office in Rome and employed a number of agents to cover the country. Whilst Williamson had achieved a strong market presence, the operation was costly and payment was very slow in coming through to the UK. This operation was shut down and the agreement with the wholesaler severed. A new agency was then appointed to give a completely fresh approach. In 1998, the view was that this was not proving to be as successful as was hoped. It had been anticipated that a number of the traditional accounts the company previously had with the larger department stores and supermarkets would be further developed.

In 1999, the company was once again examining their operation in Italy. Rather than an agent that represented a number of companies, the company were, at this point, considering they would appoint an Italian sales manager reporting directly to the UK, and from where the market would be directly serviced. This would mirror the operation they had recently set up in Germany:

> "He could do a complete marketing audit first off and then look at our products and tailor some products to fit but use the brand that we've got and take it to the market in that way, using a logistics function based in northern Italy which would handle the distribution, rather than our trying to sort of jump from here to Naples. That would be the way to do it. That's the best way to operate and that's what we're doing in Germany."

In Germany, Williamson owned a distribution operation. In 1996, they sold this to the German management, who then took on the stock. Over the years this team had built a healthy business in Germany. Williamson had a strong market share and a strong brand identity in the market. However, late in 1997 the owners sold the company on again to another distributor.

The new company, as a distributor, took the view that Williamson products were over-priced and, since they were sourcing many of their other products from the Far East, decided to source knives from there as well. Williamson lost about £500,000 of turnover. To complicate matters further, Williamson found they were unable to extricate themselves from the contract until December 1998.

In January 1999, the company appointed a new sales manager for Germany. He was briefed with the challenge of building on the trade brand equity that Williamson believed they still had in Germany to redevelop the market. The new strategy rested on the strong portfolio of products Williamson had, relative to their competitors, and their ability to design rapidly and manufacture products efficiently and cost effectively.

The 1996 review also led Williamson to re-assess its segmentation approach to the European market. Traditionally, the company had segmented the European market geographically (by country). In 1997 Williamson began the process of developing more integrated approach to segmenting the market. The objective of the re-orientation, as viewed by the International Sales Director, was to help them resolve the dilemma of trying to achieve more coherence in their product range, a more unified brand image, and still retain the ability to tailor products to customer needs.

To achieve this objective, Williamson developed a segmentation strategy based on customer types and the type of benefits they were seeking from the sale of knives, rather than geographical / country criteria. Through this exercise a number of similar clusters were identified across international markets. This allowed Williamson to rationalise their portfolio of products and move to a position where they could provide, in each market segment the company chose to target, three product positions, a:

> "good, better and best offering."

In 1999, reflecting on the previous two years, the view of the International Sales Director was that the company had faced a number of interesting challenges and difficulties. He considered the company had worked hard to face up to these challenges, particularly in their European markets. They had re-appraised their product portfolio and restructured their European distribution operations. The view was also expressed that the new segmentation strategy developed formed the basis on which Williamson could now move forward to compete more effectively in their international markets in the future.

Conclusion

The individuals participating in the study were the unit of analysis for the research underpinning this thesis. The objective of this chapter was to introduce the reader to each of the firms studied longitudinally from the viewpoint of the managers and owners interviewed. The aim was to set out the context for the further analysis of the data collected with regard to the research themes identified in Chapter 4. As such, this chapter was an introduction to the subsequent chapters of this thesis.

This chapter only offered a partial explanation of the data generated, in that it simply related the challenges and events that the firms encountered during the time period of the study. It made no attempt to relate the firms to the themes to be debated in subsequent chapters. Likewise, the chapter offered only a partial explanation of the firms themselves, in that the chapter aimed to deal with those issues, within the firm, relevant to the subject being investigated for this thesis.

Thus, this chapter set out the specific context of the subsequent analysis of the longitudinal data in the following chapters. By presenting a description of the specific context in which the analysis took place, the chapter contributed to the reader's understanding of the applicability of the findings and conclusions presented in later chapters.

As is clear from the material presented in this chapter, the firms studied were a rich source of interesting and dynamic information. All the firms studied under went changes in the time period of the study and had to face interesting challenges in their international markets. Insights into how the firms managed the difficulties they met and, the ways in which the companies dealt with the change events recorded was made possible, only by studying the firms longitudinally. A number of incidences were identified in the chapter where firms had to make difficult choices and overcome significant hurdles. This, in many cases, as became clear as the events were followed, was not viewed by the respondents as necessarily as a smooth or easy process, nor one, in which the correct judgement was always made.

The picture that emerged, therefore from this chapter is of firms, highly committed and effective in competing internationally, but nevertheless, continually having to come to terms with a series of struggles in a difficult and changing international environment in order to maintain that competitiveness.

Chapter 6: The Development of International Marketing Strategies

Introduction

This chapter is concerned with understanding the international marketing strategy development of the firms introduced in Chapter 5. It is not concerned to justify the type of strategies pursued or, particularly, to attack the strategic paradigms in which the firms operated. Rather, in the inductive tradition, it is an exploration of the underlying processes within the firms in their endeavours to build their international competitiveness. The chapter draws from an evaluation of the longitudinal data generated from the study and a discussion of relevant literature.

The principles of grounded theory, as explained in Chapter 3, were followed. An important characteristic of grounded theory is the process of analytical induction (Connell & Lowe, 1996). This meant that, rather than review the literature first, the author integrated the relevant literature at each stage of the analysis. This enabled the author to draw from a wide range of literature in seeking explanations of the behaviour observed.

Chapter 4 of the thesis examined the findings of the initial interviews. In that chapter, a range of activities and strategies pursued by firms that competed effectively on international markets, was identified. It was suggested by the author that these capabilities centred around three research themes: the development of international marketing strategies, the development of an international network of relationships and the underlying processes that sustained the firm's international competitiveness over a period of time.

It was, suggested by the author that, in order to understand the nature of firms that competed successfully on international markets, it was necessary to explore the role each of these research themes. The themes were viewed as being integral to the nature of the firms that competed effectively on international markets and each was viewed as being inter-linked as illustrated in Figure 6 (Chapter 4, p.112). In this and the remaining chapters of this thesis, each of these research themes will be examined.

In this chapter, the role of the development of international marketing strategies is explored. In structuring the discussion of this theme, the author sought to reflect an understanding of, not only of the strategies pursued and how these were developed, but also how the firms dealt with the strategic issues and dilemmas they faced in a changing and competitive international environment. To facilitate the incorporation of these aspects in the discussion, this chapter was structured into distinct sections, as depicted in Figure 7.

Figure 7: Outline of Chapter

The International Marketing Strategies Pursued

In order to create competitive advantage, Porter (1985) suggested that firms should adopt one of three generic strategies: *cost leadership*, which required the firm to establish a lower cost base than its local or international competitors; a *focussed strategy*, where the firm concentrated on one or more narrow segments and thus built a specialist knowledge of the target segment or *differentiation*, where the firm emphasised particular benefits in the product, service, or marketing mix, that customers thought important and a significant improvement over competitive offers.

Not one of the firms studied followed a cost leadership strategy or entertained aspirations of being the cheapest on the market. In fact, there was a definite intention to build a competitive advantage by avoiding price competition and focussing on the achievement of margins. As Williamson remarked:

> "The way is to try and avoid competing on price. This is why the product distinctiveness and the new product development is so important."

SMEs that adopted a low-cost strategy to achieve cost leadership were seen to be potentially vulnerable to price competition, either from local firms in the foreign country market or larger multinationals temporarily cutting prices to force a firm out of that market. This notion was supported by the findings of Pelham & Wilson (1996). In their study investigating the link between small firm performance and marketing orientation in a longitudinal sample of 65 firms, proposed that small firms that pursued a low-cost strategy tended to emphasise an internal orientation based on cost containment and production efficiencies rather than delivering superior value in the market. Given this limited ability of small firms to pursue a low-cost strategy, superior performance was viewed as being best achieved by delivering superior customer value through differentiated products for carefully selected market niches. The contribution of Pelham & Wilson is important in that it built upon strategy-environment co-alignment literature (Porter, 1980; Venkatraman & Prescott, 1990 and Aldrich, 1979) linking the concept to the performance of SMEs. Furthermore, they suggested that the antecedent to this co-alignment was a strong orientation within the firm to the external marketing environment. Thus it was not the product strength itself that was a critical factor, (as respondents in fact articulated in the initial interviews), but how the firms sought to use their products to build a competitive advantage on international markets that was of primary interest.

It was found the firms studied longitudinally, considered they competed by building superior value on international markets. They sought to differentiate their products from identified competitors either by product innovation or by adding value to the product offering by, for example, offering high levels of customer support. Table 6.1 gives a summary of the international strategies followed as articulated by the firms.

Table 6.1: The International Strategies Pursued

	Strategic Direction	International Strategies Pursued
B F Rail	Added value through bespoke design and fast, reliable delivery.	Focussed entirely on two market segments, (industrial railways and tunnels) and built a subcontracting service to major contractors around the world. Actively built an international network of *quality contractors* and developed long-term relationships.
Flybait	Innovative new products and high levels of customer support. Competed by changing the way customers were serviced world-wide in the fishing tackle market.	Differentiation strategy pursued through product innovation. Developed a small presence in over 30 markets, through catalogue sales, use of trade credit cards and express international couriers.
Fox	Product leaders in the personal and portable safety lighting equipment for use in potentially explosive atmospheres.	Product differentiation. Offered a guaranteed 48 hour delivery service on all products and spare parts world-wide.
Stadium	Provided technical solutions to precision forging problems in the aerospace and medical implant sectors.	Focused on key niche sectors, targeted larger multinational clients with whom Stadium traditionally dealt direct with no distributors or other intermediaries. Depended heavily on repeat orders. Built and managed their long-term relationships as a key part of the international strategy.
Thompson	Made it as simple as possible for the customer, to buy from Thompson as from a local supplier. Offered complete flexibility in, quantity, sizing and finish of the product.	Targeted customers, not countries and dealt direct with all customers. Competitive focus on servicing the needs of the oil & gas market and persistently adding value over & above any competitive offering.
Williamson	Leader in the field of *edge technology*. Proactive policy of innovatively developing new products for international markets	Product innovation & differentiation, international market strategy built on a market by market basis. Large network of distributors with whom built close working relationships balanced by tight financial controls.

B F Rail, Thompson and Stadium focussed on particular international niches in their markets. Their competitive advantage was built by adding value through building high levels of support to their clients around the world. Thus, their differentiation was achieved by building high levels of bespoke services to their clients. In the case of Stadium, this was through interactive design services and close customer contact. In the case of Thompson and B F Rail this was through high flexibility in both the product offering and in making it very easy for the customer to access the product.

> "We give exactly what the customers want. We quote in their currency. We give them the payment terms they desire, we work on open terms you know, no letter of credit or anything like that - nobody, nobody, not one of our competitors in the world does that". (Thompson)

Flybait, Fox and Williamson each followed a product *differentiation* strategy. This required relatively high investment levels in research and development to develop and maintain technological leadership in their specialist areas. These firms built a competitive advantage on their international markets by systematically and incrementally innovating to add value to their product offering.

Day & Wensley (1988) and Slater (1997) maintained that, in building superior performance over time, a firm must be able to deliver superior customer value that was unique and difficult to imitate. Firms, they suggested, must develop the capability to adapt and develop competencies in a changing environment. Thus, the strategy should be one of building internal capabilities, not necessarily one of chasing every sales opportunity.

SMEs competing on international markets do so with limited resources. Siu & Kirby (1998), suggest that any international strategy they pursued must be developed within that context. The international strategies developed by the firms in the sample reflected this. Firms invested resources either, on developing the capability to add value to their product offering to targeted customers world wide or invested resources on ensuring they maintained superior product performance ahead of competitors world-wide. However, all firms targeted specific identified niches.

Thus, rather than seeing themselves as exporter selling a range of products in international markets, the firms viewed themselves more as competing internationally:

> "Europe is our home market, not the UK. We sell our goods on an international basis, so from that perspective, it's no different from the UK. It just happens to be a bit further away, but logistics are more difficult to manage." (Williamson)

Brown & McDonald (1994) considered that successful international niche marketing required that the product or service either be distinctive (highly differentiated), or be recognised, by consumers and other participants in the international supply chain, as having a clear positioning (highly focussed). Although three of the firms studied were quite small, the companies sampled showed that they had a strong customer orientation to their international strategy. However, it is necessary to examine further how the firms had developed the strategies, as articulated in Table 6.1.

Table 6.1 gives an indication of the international strategic aims as expressed by the respondents. Williamson aimed to be leaders in *edge technology,* whilst Stadium aimed to find technical solutions to forging problems. Thompson, on the other hand wanted to make it as easy as possible for customers to buy world-wide.

Collins & Porras (1997), in their six year longitudinal study of high performing companies in the USA, found that businesses with long-standing reputations for business excellence had a strong *core ideology.* The ideology, they suggested, consisted, of two components, core values and core purpose. *Core values* were defined as being "a small set of guiding principles that require no external justification, they have intrinsic value and importance to those inside the organisation" (p. 223).

Collins & Porras (1997) proposed that the values and principles held by the firm were critical in creating the climate in which business strategies could develop, and it was these values that underpinned the *core purpose* developed by the firm.

The *core purpose* was seen to be the fundamental reason for being a company, the reason the firm existed. Collins & Porras saw an effective purpose as reflecting the importance people attached to the company's work and so differed from the concept of core competence (Hamel & Prahalad, 1991) in that the "purpose gets to the deeper reasons for an organisation's existence beyond just making money....like a guiding star on the horizon, forever pursued but never reached"(p.224).

The core purpose of the firm, they suggested, played an important role in defining the direction of a firm's strategy, and so should be considered when exploring the nature of the international strategy development. The firms studied, as was suggested in Chapter 4, seemed to have a high degree of clarity of thought with regard to the purpose of their international strategy. In the firms studied longitudinally the findings suggested this was so, not only in determining the direction the international strategy of the firm (see Table 6.1), but also, in providing a frame of reference for the firm, to guide decision making in times of uncertainty or crisis. The role of the core purpose can be illustrated by exploring the experience of two of the firms studied, Stadium and Thompson, when facing a crisis in their international markets that developed during the downturn of the economies in South East Asia in 1997-99.

Critical Event: The South East Asian Financial Crisis 1997-1999

Stadium

Stadium, in 1996, was awarded a major contract in Japan, for which the company had beaten a Japanese competitor. This, in the view of the management, was a major achievement, following eighteen months of hard work and a considerable investment made in both time and resources by the company. According to the views expressed, Stadium had to undergo rigorous inspection checks as well as make many visits to Japan in order to convince the new client of their credentials. The view, at this point in time, was that the Japanese were very exacting but, having proved themselves, Stadium should be secure in their relationship over the next few years. This was borne out by the experience of the first 18 months of the contract, which were, highly successful and resulted in Stadium securing a number of repeat orders.

In the discussions held in 1997, the company did not express undue concern regarding the financial crisis becoming increasingly apparent in South East Asia:

> "I think it has been discussed, but it's not been a difficult factor so far."

However, in 1998, the strong appreciation of sterling against the growing weakness of the Yen led the Japanese customer to ask Stadium to readjust its prices for the renewal of the contract due in 1999. Stadium assessed that such reductions could lead to a loss situation soon developing. Stadium negotiated, but, in the end, were unwilling to reduce prices to the level required:

> "The position on Japan has been pretty much the same as everywhere else, Stadium are always willing to talk and negotiate on price, but certainly not take business which is not

> deemed to be a profitable enough - that doesn't stand to break even - that's not been a strategy here."

In 1999, the new three-year contract was awarded to the Japanese competitor. The company stated they were closely watching the Japanese situation:

> "it's still dead but we're still watching."

Meanwhile the company had proactively sought new business in Singapore and China and had some success in securing new contracts. These were viewed by the firm, as more than compensating for the loss of business in Japan. Stadium defined their core purpose as:

> "providing technical solutions to precision forging problems."

They saw themselves as in the business of supplying high quality precision forgings to the aerospace and medical implant industries around the world. This was a small and specialist niche market in which Stadium felt they had built a competitive position world-wide. Their international strategy was based on the principle of focussing only on those markets where they could distinguish themselves from more low priced competitors, and so achieve high margins. It was interesting that, in facing the strategic challenge in Japan, the company very clearly maintained the clarity of their core purpose. Whilst they were willing to be flexible, they were not willing to compromise on this principle and thus responded to the demands of the Japanese, not by reducing prices, but by aggressively seeking new opportunities where their experience in Japan and the lessons learnt, could be profitably applied.

Thompson

Maintaining the core purpose of the firm, whilst at the same time facing challenges in the market place, was also evident in Thompson when they too had to assess the impact of the South East Asian crisis on their development plans.

The core purpose of their international business, as defined by Thompson was:

> "to make it as simple for the international customer to buy from them as it is from their local supplier."

In the fulfilment of this purpose, in early 1997, a strategic decision was made to invest in a new operation in Malaysia to service customers in South East Asia. An important trend amongst their customers, observed by Thompson, was the move towards the concept of single sourcing. Many of their customers themselves had a global presence, Thompson were convinced that, if they were to defend their market position and proactively develop new markets, it was imperative that they respond to this trend:

> "We are constantly being asked by our customers to provide, or to meet the demands of, the single sourcing approach and it is with that in mind we felt that we needed a global presence. We'll be the only supplier capable of covering the world-wide requirements of our customers. I'm talking here about key accounts, you know, who have manufacturing plants all over the world."

In early 1997, land was acquired for the new operation. In late 1997, despite the apparent slow down in economic activity in the region, the company were still optimistic in their planning of the new operations and were looking forward to a completion date in 1999:

> "It's a brave move. A lot of people I've talked to are saying this is very brave. We supply the oil industry and there is a wave of optimism throughout the world as far as the oil and gas industry is concerned."

However, in 1998 the decision to start the building of the new operation was put on hold until the end of 1998, when the decision was to be reviewed:

> "There are too many things happening in South East Asia or in the Far East as a whole - all the way from the financial crisis to the Indonesian coup, to what is currently happening in Japan, which is affecting the whole of the Asian economy and the rest of the world."

Even at this stage Thompson's business in South East Asia was still buoyant and Thompson were still convinced of the need for a presence in the area:

> "We just think the timing is wrong."

In 1999 the decision to build was still on hold:

> "We're still convinced that it's the right thing to do, that's it's the right place to be, we shall not deviate from the strategy. We had a world-wide strategy, it is a temporary set back. It doesn't reflect in any way a change of policy, a change of strategy. It is more for financial reasons and also to see how the markets recover before we make what is going to be a very vital decision in terms of financial investment."

Whilst the outcome of the final decision differed, in both these examples the respondents used the core purpose as a reference point to make difficult decisions. Stadium kept to its principle of high margin business only, and so withdrew. Thompson stood by its decision to develop a presence in South East Asia to service its customers effectively. The question even after two years waiting was not *if* but *when*, the timing of the decision being of crucial importance. In times of crisis, then, the clear sense of the purpose expressed within the international marketing strategy was a key factor guiding the decision-making at critical stages in the firm's international development. It was the articulation of the core purpose, rather than the product offering per se that guided the firm in aligning their strategy in the changing international environment.

However, it was not just a matter of a strong core purpose. Each of the firms, it is suggested, were influenced not only by their core purpose, but also, the dynamics of the international markets. Thus, as was highlighted in the conclusions in Chapter 2, it is necessary to examine the interplay of external and internal factors (Yeoh & Jeong, 1995) when trying to understand the behaviour of SMEs.

The international marketing environment, as can be seen from the above examples, is often dynamic, unstable, competitive and holds many ambiguities. It was by having a high level of orientation towards the markets, combined with the core purpose that, it is suggested, enabled the firms to achieve the clarity of thinking with regard to their strategic direction and the decisions they needed to make. The emphasis they placed on competitive advantage, goal achievement and strategic focus, in making the strategic decisions at critical times was perhaps an outcome of the interaction of this high level of market orientation as well as the core purpose expressed. Avlontis & Gounaris (1999) in their study of 444 Greek companies, suggested that marketing orientation in companies was facilitated by factors internal to the company but initiated and influenced by factors in the external marketing environment (p.1003). The marketing orientation of a company was, in their view, a result of a process of evolution as the firm developed and reacted to a dynamic environment. This is, perhaps, what was observed in the companies discussed.

A number of studies have reflected on the importance of market orientation, (Diamontopoulos & Hart, 1993; Jaworski & Kohli, 1993; Narver & Slater, 1990), and its influence on company performance (Slater & Narver, 1994). Firms with positive marketing orientated values are viewed by these authors, as having the capacity to understand the needs of the customer in a manner that allows superior value to be provided. Thus because the firm is geared towards the market, it is aware of both existing and potential competitor activities and so able to identify potential opportunities and threats. As they are organised with the emphasis on achieving competitive advantage, they are able to marshal the firm's resources towards creating superior value for customers. Therefore, as is suggested by Avlontis & Gounaris (1999), marketing orientation is a "synthesis of attitudes as well as behaviours"(p.1003).

The authors referred to above, examined marketing orientation in the context of large firms. It is suggested by this author, that owners / managing directors of SMEs could, perhaps, be equally capable of building a competitive advantage on international markets through the instillation of market oriented values in their firms. Having a small number of employees, and relatively simple organisational structures, could mean they are in position to reinforce the marketing-oriented values and attitudes and behaviours they establish.

In summary therefore, it is suggested, that a core purpose combined with a high level of orientation toward international markets could be an influence on the ability of SMEs to compete effectively on international markets. The basis from which the international strategies of the firms were developed seemed to reflect this. It is that reflection which was of primary interest in this chapter. The role of marketing orientation will be examined again in Chapter 8. Of special interest in that chapter will be the linkages between marketing orientation suggested and the development of learning capabilities within SMEs.

This chapter is concerned with strategy development. Whilst the core purpose was considered to be a guiding force in the examples given, if a firm is to be oriented towards its markets, it is suggested it will need to reconsider its strategy, firstly as it responds to the specific needs of different international markets and secondly as competitive conditions changed over a period of time.

As was discussed at the commencement of this section, over a period of time, the firms studied had built distinctive advantages into their products, through a process of adding value, either through product innovation or the incorporation of key services into their product offering. This allowed them to target specific customers and differentiate themselves from competitors in the specific international market niches they targeted.

However, the cost of maintaining high levels of differentiation over competitors and the cost of meeting the needs of customers in a number of disparate international markets was, obviously, demanding in both management time and financial resources. How the firms managed those marketing strategies across a number of international foreign country markets is, therefore, important to explore.

Managing Strategies Across International Markets

In Chapter 4 it was identified that the firms studied competed in a broad spread of markets often with only a few customers in each.

The findings from the firms studied longitudinally suggested that the basis on which the firms competed internationally influenced their approach as to how far they were willing to adapt their products to the requirements of the different international markets. Thompson, Stadium and B F Rail offered total flexibility in product design as part of the added value of their product offering. All three firms, therefore, adapted their strategies to the needs of their customers across a spread of international markets and specialised in offering bespoke designs to the customer's specification.

Axinn, Noordewier & Sinkula (1996), in their study of over 100 firms in Canada over a three year period, proposed four typologies for the classification of export marketing strategies: broad based market-spreading strategies, (which can be customised or standardised) and narrowly-focussed market concentration strategies (which can be standardised or customised). The three firms cited above, whilst following a broad based strategy did customise their approach to different markets. However, the unit of analysis for that customisation was not a geographical entity but individual customer or customer sector level.

The other three firms also operated across a wide spread of international markets. They very seldomly adapted their products and took a much more standardised approach. Flybait and Fox invested heavily in product literature and promotional material. Whilst, in the case of Fox, this catered for different language needs, the literature constituted the primary vehicle for selling a standard range of products across a number of international markets.

The approach of Williamson saw developments over the period of the study. This firm had built its international portfolio on its leadership in *knife-edge technology*, which was, essentially, one lead product. This was a standardised product throughout their international markets, but with a policy of adaptation in packaging and promotion to meet the requirements of each individual market. As the firm's international business had developed, to increase their market penetration, the range of products had also increased. Each new product was either adapted or designed to meet the specific needs of particular international markets. In 1997, faced with a proliferation of brands across its international markets, they viewed this as a weakness in their international strategy. Williamson conducted a rigorous rationalisation of its product portfolio, in an attempt to achieve some degree of standardisation of its product range across its international markets. Thus in the first seven years of their international development, the firm followed a policy of flexibility and product adaptation. As their international business expanded, they saw the need to rationalise and take a more structured approach to the management of their international product portfolio in order to compete effectively across their international markets.

Shoham & Albaum (1994), in their study of SMEs in Denmark, found that firms who transferred marketing strategies from one market to another did not perform as well as firms who adapted for each market separately. The reason given for this was the importance of accurate positioning, possible sources of friction between the two markets and flexibility outweighing any possible benefits gained through economies of scale. The findings of this study questioned this. Shoham & Albaum assumed that the individual country market was viewed as the strategic business unit by the firm and that the firm viewed their international strategy development in terms of country markets. The findings of this study, as was suggested in Chapter 4, suggested that the strategic unit was perceived as being the customer or sector of customers. The specific location of the customer was of importance, not so much in the development of the strategy, but in its implementation. The strategies of B F Rail and Stadium were very clearly targeted at customers and individual market sectors, as opposed at specific countries, as was Thompson:

> "We select customers in specific countries. We don't target a country. We target customers which we feel are most likely to order from us and there could be one in a country."

These firms followed a strategy of product adaptability. However, they had a very clear product positioning which was consistent across all their international markets. Furthermore, the critical point of differentiation was on a customer basis, not a market basis. To a certain extent, this was also the case of the firms following a more standardised approach to their international product strategy. Whilst it was true they were aiming to standardise their approach as far as possible, their strategic unit was not the country but the specific market sector they were targeting. As this was so specialised, it was only relatively small in any one country. Hence the need to seek similar customers across a diverse range of countries.

In summary, therefore, it is suggested that, in understanding the nature of the firms studied, whether they standardise or adapt their strategies is not necessarily a primary factor. All the firms studied operated across a broad spread of international markets. However, it is suggested, in building a competitive advantage across these markets, the strategic unit of analysis was the customer and not the geographical entity of where the customers were placed.

Having examined what strategies were developed and how they were managed across international markets, it is important to explore how the firms managed their international strategies over a period of time in an international marketing environment, which was challenging and competitive.

Managing International Strategies over a Period of Time

In studying the firms longitudinally, it was suggested in Chapter 4 that it would be important to explore further how the firms studied maintained their competitive positions in an international marketing environment that was constantly changing and developing.

To a certain extent, this question can be examined by exploring the strategic orientation of the firms. Strategic orientation has been defined as "How an organisation uses strategy to adapt/change aspects of its environment for a more favourable alignment" (Manu & Sriram, 1996, p.79).

Strategic orientation has long been believed to influence the degree to which strategies within larger organisations were coherent and assertive (Ansoff, 1965; Steiner, 1969). The typology widely examined in literature is that of Miles & Snow (1978). This suggested that firms can be affiliated to one of four strategic orientation types: prospector; defender; analyser and reactor. However, this typology was based on a study of larger corporations within the USA. Few studies have specifically explored strategic orientation in an international context, particularly from the viewpoint of the SME. Thus, whilst the concept of strategic orientation was seen as highly relevant to the research under discussion, little had been done in the context of this study.

Wood & Robertson (1997) were an exception to this in their study of the strategic export orientations of firms in the Northwestern part of the USA. They examined firms, firstly along a continuum of *proactive* and *reactive* assertiveness (p.425). A proactive orientation reflected a highly assertive firm and a reactive orientation reflected a short-term perspective with relatively little value placed on long-term planning. Secondly, they examined firms along a continuum of rationality. A highly rational manager supported methodical approaches. A non-rational manager based decisions much more on intuition than traditional analysis. A highly rational and assertive firm was seen as highly proactive, whereas a non-rational and less assertive firm was viewed as reactive.

There was an assumption by Wood & Robertson (1997), that a highly proactive company was better able to compete over the longer term. Wood & Robertson asserted that organisations with a proactive orientation did better than those with a reactive orientation. However, they did qualify this by saying that those organisations that valued, and proactively pursued, exclusive information and which aspired to beat competitors in foreign markets, performed better and expected to do better, and that these two tendencies were supportive of each other. However, they assumed that the pursuit of exclusive information was carried out through a rational approach to information searching. Such a view runs contrary to the findings of this study.

The findings of this study suggested that whilst the firms in many ways, saw themselves as proactively developing new markets and new strategies, they were equally vigorous in reacting to changes and developments in the market place. The picture that emerged was much more complex than suggested in the literature. This author questioned whether, it was possible, to classify the strategic orientation of SMEs competing on international markets, using either the Miles & Snow classifications or those of Wood & Robertson, as the following discussion illustrates.

Flybait viewed themselves as quite an aggressive and proactive company but this was to defend their position against the high levels of competition that emerged in a number of their core international markets. Having proactively built an international competitive position on being highly innovative in both their product offering and the methods used for marketing the products internationally, it was important to them that this lead be maintained. In 1999, the firm saw their strategy of actively seeking partnerships both with suppliers and customers as an aggressive strategy to defend their market position,

> "We're making sure that we're still defending the market that we've already got, we're very pro-active in being defensive, and we're actively aggressive. Our strategies are to defend our current position, but we are looking to the future as well."

Thus, they were highly proactive in defending their market positions. Likewise, they saw themselves as being defensive in their proactive strategies, such as the way in which they brought new products to market.

> "We bring out new products, but when we bring out new products it's totally secret and we then flood it across our markets. That's done as a defensiveness thing so that it's not worth copying. We have to be defensive like that."

This is more akin to the notion proposed by Hrebinak & Joyce (1984), who argued that firms must, to a certain extent, be reactive and that managers can be neither exclusively proactive, nor exclusively reactive. He suggested that firms at different times exhibit a variety of strategic orientations.

This was reflected in the views of B F Rail, who saw themselves as constantly balancing the need to be reactive/ proactive at the same time. They saw themselves as being particularly proactive in their relationship development and pointed to the success of their international market expansion strategy as testimony to that. However, their relationships were a critical component in shaping their capability to spot and maximise new opportunities in international markets to which, when spotted, they reacted to swiftly.

As a sub-contractor, B F Rail viewed their strategic development in terms of the relationships they formed and so were aggressive in seeking new ones and also defensive in maintaining the relationships the had built previously. Fox, on the other hand, viewed themselves more as a problem solver and did not see themselves as being particularly proactive:

> "we are constantly evaluating and re-evaluating our products, our approach to the market, our internal systems, all those sort of things."

This, they viewed as critical in defending their international business. They emphasised internal efficiencies and cost reduction, whilst at the same time, being:

> "self-motivating and pro-active, if that makes any sense."

They defined proactiveness in terms of expanding into new markets and prospecting for new business in markets where they had not previously had a presence, and being reactive in the sense of ensuring tight financial controls.

Williamson saw the balancing act as being one between the need to be proactive in building a knowledge base of what was happening in international markets and being able to react rapidly. High priority was put on researching markets and understanding key trends. However, the company, like Fox, saw themselves as:

> "constantly evaluating and seeking new opportunities."

Thus, they viewed themselves as being very proactive in developing new products and in prospecting in new markets, but reactive in the sense of responding to developments in their markets.

Thompson had a relatively stable market, in terms of their customer base and so considered it important to be highly proactive in looking for new ways to compete within that market. However, they operated within the very unstable economic environment of the oil industry and, so, had to be prepared for swings in the market that appeared very quickly. For this reason, they viewed themselves as being highly proactive in developing networks through which they could gain knowledge close to their markets:

> "keeping my head to the ground, talking to people. As you know we place a great deal of emphasis on communication and I like to think that our network works and works well, suppliers, customers, competitors, you can build up a wealth of knowledge, of market information through them."

As in the cases of Williamson and Fox, Thompson viewed their strategy process as oriented towards an analytical basis, but saw this as proactive, rather than reactive.

Stadium, again, wrestled with the notion of being proactive and reactive at the same time:

> "You've got to be proactive but in the short term you've got to be able to react to the market. You've got to react to what happens. Relationships are not permanent in any way, shape or form, so it's having the flexibility to know when and how they're changing. Things happen that you have no control over - cost of raw materials, cost of electricity, you got to know about them and you have to react to that."

In summary, Thompson, B F Rail and Flybait seemed to show a strong proactive orientation, particularly in pursuing exclusive market information. However, as will be seen in Chapter 7, this was predominantly achieved through their network of relationships and, so, may not be deemed highly rational as defined by Wood & Robertson. Williamson, Fox and Stadium, whilst they showed a higher tendency to seek information through methodical means, viewed themselves as less assertive in the market place. They considered themselves proactive in the building of knowledge of the market place to ensure they were better able to defend their competitive positions in international markets. Thus, central to their ability to maintain their competitiveness in international markets was their ability to react and respond to changes in their market environment.

In referring to the Miles & Snow (1978) and Wood & Robertson (1997) typologies, it seemed that the firms might be both prospector/defender and both proactive/reactive. It was interesting to observe the importance placed by the firms on ensuring they had the capability to evaluate and re-evaluate opportunities and have the flexibility to react to strategic challenges, in order to maintain their competitive positions in international markets.

This constant balancing act of proactively developing strategies to react to market changes can be explored further by examining how the firms studied dealt with the strong appreciation of sterling in the period 1997-1999.

Critical Event: How the Firms Studied Dealt with the Strong Appreciation of Sterling 1997-1999

A strategic challenge faced by all the firms, during the period the firms were studied longitudinally was the increasing strength of sterling against other major currencies, especially in the period since 1997.

There is no doubt that the strength of sterling had a serious impact on all the firms studied. In 1998, the view expressed by Flybait was that there had been a 25% swing against their prices in one year, rendering them much less competitive on international markets. As the strength of sterling continued through 1998 and 1999, the impact became increasingly severe. However, the level of impact did vary across the sample.

Flybait, Fox and Williamson very soon suffered the negative impact on their international business. Thompson, B F Rail and Stadium did not really suffer an impact until 1998 where, in addition to the strong appreciation of sterling, the firms also had to face the financial crisis which became increasingly apparent in South East Asia in the period 1997/98.

The interesting observation, with regard to the firms surveyed, was that despite the difficulties experienced, all the firms continued to build their international business over this period. This was in contrast to the national picture, where the Bank of England (1999) reported a decline of 34% in export orders and a decrease of 30% in export sales in 1998 for firms in the size band 0-199 employees.

It is suggested that the capability of the firms studied to build international business in a climate where many firms were failing was due to two factors. Firstly, the positive attitude of the companies. The view expressed, was that the strong appreciation of sterling was a competitive challenge to be faced and overcome; it was not seen as a reason to lose international business or withdraw from international markets. This was a marked difference in attitude to the general picture. In a study carried out by Grimes

(1998) amongst a sample of 600 firms in Yorkshire and the Humber, the same geographical region as the study under discussion, Grimes found that 13% of the firms surveyed had ceased to export in the previous two years, the strong appreciation of sterling being cited by respondents as the primary reason.

Secondly, all the firms stated they had evaluated the problem and concluded that the situation was likely to continue, certainly in the medium term and, therefore, they needed to develop responses to protect their market positions. Table 6.2 gives a summary of the responses as given by the respondents.

Table 6.2: Response Strategies to the Strong appreciation of Sterling

Company	Response
B F Rail	Re negotiated pricing structures.
Flybait	Entered new export markets Opened a US $ sales ledger to invoice in US$ Opened Euro sales ledger 1999.
Fox	Gave free products based on quantities ordered Developed fixed exchange rate with 5% margin over which discounts awarded.
Stadium	Tighter deals with suppliers in order to fund discounts to customers.
Thompson	Cross-subsidised import of materials with export prices absorbed loss as far as possible.
Williamson	Priced in foreign currencies, competed on non-price factors.

It is not in the scope of this chapter to evaluate critically the appropriateness of these responses. It is interesting to note, however, that whilst the individual responses varied, all the firms interviewed, proactively investigated, analysed and evaluated the relevant issues. This perhaps indicated a high degree of assertiveness in their approach. Furthermore, the fact that the firms had built a competitive position on added value rather than price was considered by the respondents to be an important factor contributing to their capability to deal with this strategic challenge.

The critical factor in the development of this capability however, was the knowledge base the firms had built over a period of time. Firstly, in terms of monitoring the external market environment and secondly, in the tight management and financial controls employed by the firms:

> "You cannot look at the currency issues in isolation The fact that we have got tight controls, the fact that we look at the whole process is crucial in terms of dealing with negative items. Market knowledge is absolutely crucial. If you know what the competition are offering, then you can make a calculated decision on whether you want to get in there and compete and at what level." (Thompson)

Increasingly evident, therefore, in international markets is the view of DeGeus (1988) that "The ability to learn faster than your competitors may be the only sustainable competitive advantage" (p.71).

The firms studied showed an equally proactive attitude to the introduction of the Euro in January 1999. Flybait, as early as February 1999, had published the new catalogue incorporating prices in Euros and had opened a Euro sales ledger. Fox, B F Rail and Thompson were quoting prices in the Euro as requested by clients and Williamson had established Euro accounts and offered customers the choice of negotiating in the Euro. This, again, illustrated the ability of the firms in the sample to react to the environment changes and develop strategic responses to them.

Thus, when sustaining their competitive positions in international markets it seemed the firms viewed the process as one of balancing a proactive strategy of market development with one of defending and reacting to challenges in the environment in order to maintain their competitive leads. Williamson and Flybait saw their policy on the Euro as both one of reacting to an environmental development to proactively keep ahead of their competitors.

This notion of balancing a process of proactively seeking exclusive information and developing a strategy to react to it is reminiscent of Mintzberg (1987). He viewed strategy development as *crafting an emerging strategy*, an iterative process, constantly responding to environmental changes. This was reflected in the process through which the firms in the study developed their international strategies. This will now be explored.

The Process of Developing International Strategies

In this section, the concern is to explore how the firms developed the international strategies to identify the processes underlying that development.

Thompson felt the starting point of their process was the clear strategic direction as discussed previously. In their case, this was set out by the Managing Director, from which the international objectives were developed:

> "You need to know where you're going in business and why. Where do you want to be three years from now, five years from now? My plan when I started at Thompson (1987) was to develop an international base. My strategy early on was to sell into Europe and to sell well into Europe and we did that and then we moved on. Then, gradually, I got a picture of the customer base I should be aiming at and that, yes, in that case Thompson should be in the Gulf of Mexico, in Asia and so on, but it's probably taken seven to eight years to develop properly over time."

So there was a plan in broad strategic terms, but it was neither specific nor prescriptive:

> "there was a directional pull, but the strategy changes all the time."

The strategy had evolved as the international experience of the firm had grown. The firm had met a number of strategic challenges and, gradually, gained a clarity to the strategy as they developed in the international markets.

The same process could be seen at Stadium:

> "This company has got a broad strategy, but, it is evolving all the time. Somebody, somewhere, has to have a good idea at some point. So, the vision is clear but the actual strategy and plans are evolving and building. It's very rare that a company has a strategy which it meets."

Thus, the process was not viewed as a linear process, but an interactive process of experimenting, reflecting and then either going forwards, holding or pushing in another international direction.

Mintzberg (1987) identified three modes of strategy making: entrepreneurial, planning, and adaptive modes. In the *entrepreneurial* mode, a strong leader took bold, risky actions on behalf of the organisation. The *planning* mode was characterised by formal analysis used to structure explicit, integrated strategies for the future. In the *adaptive* mode, the organisation responded to a difficult environment in small incremental steps. The strategy development process of both Thompson and Stadium was very much akin to the adaptive mode as expressed by Mintzberg. The international marketing environment was viewed as turbulent and dynamic and so only small steps could be taken at any one time.

The adaptive mode was similar to the *transactive* mode, as articulated by Hart (1992). In this mode the strategy was crafted upon an on going dialogue with key stakeholders. The firm was concerned with facilitating a process for building the dialogue with key stakeholders and linking the outcomes of those processes together over time to determine strategic direction. In exploring the process through which the firms in the sample developed their international strategies, aspects of both the adaptive and the transactive mode were apparent.

At Flybait, a small firm where the Managing Director had built the international portfolio from a zero base, a more transactive approach was taken. Whilst Flybait had a very clear view as to the strategic direction and the strategy the firm was pursuing, this had not always been the case:

> "It really evolved. In the beginning, we really were just reacting to foreign requests. I knew we needed to expand overseas. I would say it evolved through the customers, I suppose, you know, they've told us what they expect from us that was the first building block."

Thus, as in the transactive mode of strategy making, Flybait had crafted their international strategy over a period of time by responding to an ongoing dialogue with partnerships developed within the supply chain. Interestingly, whilst Hart associated the transactive mode with higher performing organisations, he argued it was most prevalent among large firms in mature industries with complex interactions among suppliers, customers and other stakeholders. Flybait was a small firm employing seventeen people, and yet, they considered, an important aspect of their strategy development process was the interaction with customers and the members of their supply chain. This perhaps again suggested that in exploring the nature of SMEs, it was necessary to explore the role of the network of the relationships they developed.

The notion of adaptive change and growth can be seen in B F Rail, another smaller company where the Managing Director had developed the firm's international portfolio from a zero base. He viewed the first strategic building block as *confidence.*

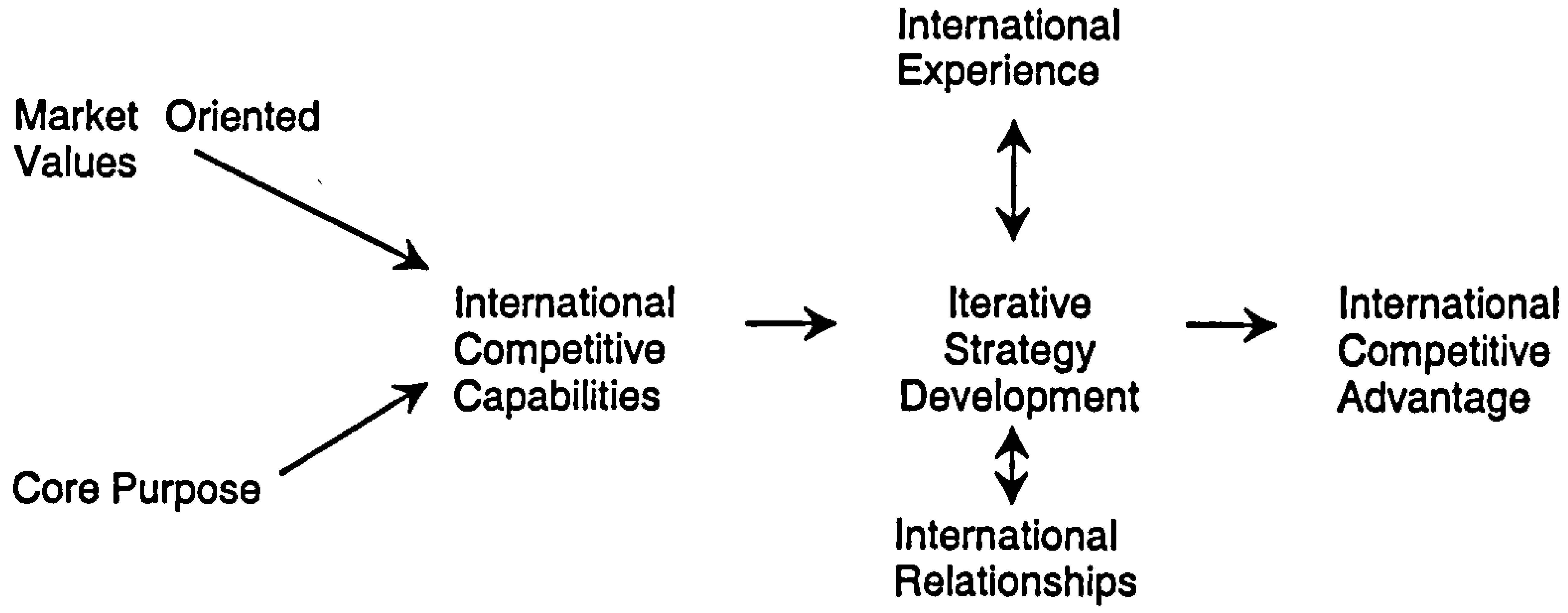
> "The initial strategy came out of our early success. That starts the confidence and then it gathers momentum. It is really when we became more successful, that we started to think about how to develop better relationships and we had more confidence to think about how to attract additional customers in other markets. So the strategy we developed came out of the success."

The perception of strategy development as building blocks, was shared by both Fox and Williamson. Both of these firms expressed the view that the product was the initial building block of their early international development. International expansion evolved with the realisation that their products had a competitive lead in international markets. The links to the international markets, through the distributorships set up, then became the second building block of the strategy. In both these cases, in the early stages of their international development, the distributors were essentially viewed as purely conduits to the end market user. It was only later that the firms proactively sought to develop much closer, and mutually beneficial, partnerships and started to think more strategically about how they should develop their international profile.

All the firms studied felt that they had clear strategic direction. As was discussed earlier, it was suggested this was derived from a positive marketing orientation and a clear core purpose. The development of their international marketing strategy, however, was a process of reflection and examination. The international strategy was developed and clarified over a period of time, in the tradition of the Mintzberg adaptive mode and the Hart transactive approach. This iterative process was fostered, firstly; by the concrete experiences of the firms in international markets, secondly; through the interaction of the firm with customers, distributors and other members in the supply chain. Finally, the increasing confidence gained through their success in international markets, generated a desire to build on that success and so led to the next level of strategic development.

In summary, therefore, it seemed that the marketing oriented values of the firm influenced both the strategic direction and the core purpose of the international marketing strategy. The competitive advantage on international markets was gradually built through an iterative process by the interaction of the reflection of experience of the firm in international markets and the network of relationships they formed. Such a process is depicted in Figure 8.

Figure 8: The Process of International Marketing Strategy Development



This process can be further explored through the colourful metaphors used by the respondent firms in discussing how they developed their international strategy. Williamson used the analogy of an underground train:

> "It's almost that you're getting on an underground train and, that you're going round and round, building on what you've got. Because what you've built in one section you're going to then use in another one."

Thus, it was an iterative process, built through a series of experiences that were reflected upon and used in other situations. This, again perhaps, signals the relevance of exploring the role of learning in the strategy development process. This is examined in Chapter 8. Coombe (1999) referred to this strategy making process as *developmentalism* (p.347), the basis of which is anchored in the process learning and resource based capability literature (Day & Wensley, 1988; Hamel & Prahalad, 1991). The main focus of the strategy making they suggested is on building for the future by building resources, capabilities and learning capacity.

However, the process of reflecting and building on experience did not necessarily mean firms went through a formal planning process. The larger firms, Williamson and Thompson certainly had in place planning and budgeting procedures. In the cases of Flybait, Fox and B F Rail, the planning was the sole responsibility of the Managing Director, who had only informal and unwritten *maps in their heads* (B F Rail) to guide them intuitively in their strategy development. This was very much akin to the marketing planning process as proposed by Lancaster & Waddelow (1998). They put forward the notion of a dashboard (tracking internal indicators) and a route map (dealing with long-term and short-term issues) as a more appropriate conceptual framework to explain how SMEs developed strategies generally. This was somewhat similar to the process of strategy building followed by Stadium who, in their own analogy, so vividly articulated the process their company undertook in developing their international strategy:

> "Well really, you know, there's the bucket in the corner and we throw things in and hope it lands in the bucket. There are all sorts of things making it (the bucket) swirl round, and a lot of outside things keep kicking it. That makes it a lot harder than if the bucket's nice and level. We've built up relationships so that people can hold the bucket for us and keep it straight for us and we try and put it on a firm surface and make sure we've got the controls so it keeps nice and level, but essentially we're throwing things in a bucket. All we can do really is to try and have a good stable organisation and then try and guess when something will kick the bucket or if somebody kicks it and you don't realise, how to react to it." (Stadium)

Stadium, however had identified a 'bucket' to target and knew where to find the bucket. They then used the relationships built to ensure they kept their position in the market, and so competed by integrating activities along the value chain (Porter, 1985). Then, in the tradition of the adaptive / transactive mode, (Mintzberg, 1987; Hart, 1992) ensured they built a knowledge base that enabled them to adapt their strategy in reaction to the challenges faced in the environment, even if they did so informally.

Stadium, as did Flybait, also illustrated the role of relationships in helping firms in the process of strategy development: firstly, in that it seemed to be through the relationships that the clarity of the firms strategic thinking evolved and, secondly in helping the firms to be pro-active in opportunity assessment. This important dimension of strategy development is explored fully in Chapter 7.

Thus, the process of strategy development for international markets was, by no means, a formal linear sequence of planning steps. It was an iterative process, developed through the firms experiences and their interactions with the network of relationships they formed in their international markets over a period of time.

Summary & Conclusions

This chapter explored the role of international strategy development of the firms studied longitudinally and in so doing built on the research theme identified in Chapter 4 as an important area to pursue longitudinally.

In this chapter, it was suggested the international marketing strategies developed by the firms studied emanated from the firms having a core purpose based on strong marketing oriented values. It was proposed that this positive marketing orientation was a significant influence on the ability of SMEs to compete effectively on international markets. It was from this that the firms studied developed a customer-focussed strategy in their international markets. Over a period of time they had built distinctive advantages to their products through a process of adding value, either through product innovation or the incorporation of key services, into their offering. This allowed them to target specific customers and differentiate themselves from competitors in international markets.

However, the firms studied were able to maintain their competitive success in international markets by showing a willingness to evaluate and re-evaluate opportunities and challenges in the international markets. They built the capability to maintain their competitive advantage over a period of time, by reacting positively to the strategic challenges faced.

All the firms studied felt they had clear strategic direction, but that the development of their international marketing strategy was a process of reflection and examination which enabled the international strategy to be developed and clarified over a period of time. This iterative process was fostered, firstly, by the concrete experiences of the firms in international markets; secondly, through the interaction of the firm with their network of relationships.

Figure 9 illustrates the key conclusions for each of the sections explored in this chapter.

Figure 9: The Nature of International Strategy Development

Strategic Direction	→	Core purpose balanced with high level of market orientation.
International Marketing Strategies	→	Customer focussed strategies, highly differentiated from competitors through product innovation or added value.
Managing Strategies across International Markets	→	Niche marketing strategies across a broad spread of international markets.
Managing International Strategies over time	→	Responsive to market challenges, through a proactive/reactive strategic orientation, operationalised through constant evaluation and re-evaluation.
Process of Developing International Strategies	→	Evolutionary Development via an iterative process of experience and dialogue with partners.

This chapter contributed to understanding the nature of the firms who competed successfully on international markets by exploring and evaluating how firms actually competed on those markets. However, this chapter only offered a partial explanation, in that it does not explain how the firms organised and structured their international activities. It indicated a number of potential reasons why the firms were effective over a period of time but was not, in the context of this chapter, able to explore this issue in any depth.

During the course of the chapter, a number of references were made to the relationships the firms had with their network of contacts. Likewise, in Chapter 4, the role of relationships was identified as a research theme to be pursued. In Chapter 7 the role of relationships is explored and the literature from the relational paradigm is drawn upon in seeking explanations.

More ambiguous, at this stage, were the references to the importance of organisational learning. It was in exploring the nature of strategy development that it became increasingly apparent to the author that further fields of literature would need to be explored in the process of theory development. The role of organisational learning was identified as being a possible explanatory paradigm, particularly in the exploration of how firms maintained their competitive advantage over a period of time. It was for these reasons that the literature on organisational learning was drawn from in seeking explanations as to how SMEs that successfully compete on international markets were effective over the longer term.

Chapter 7: The Role of Relationships in Building Competitive Success on International Markets

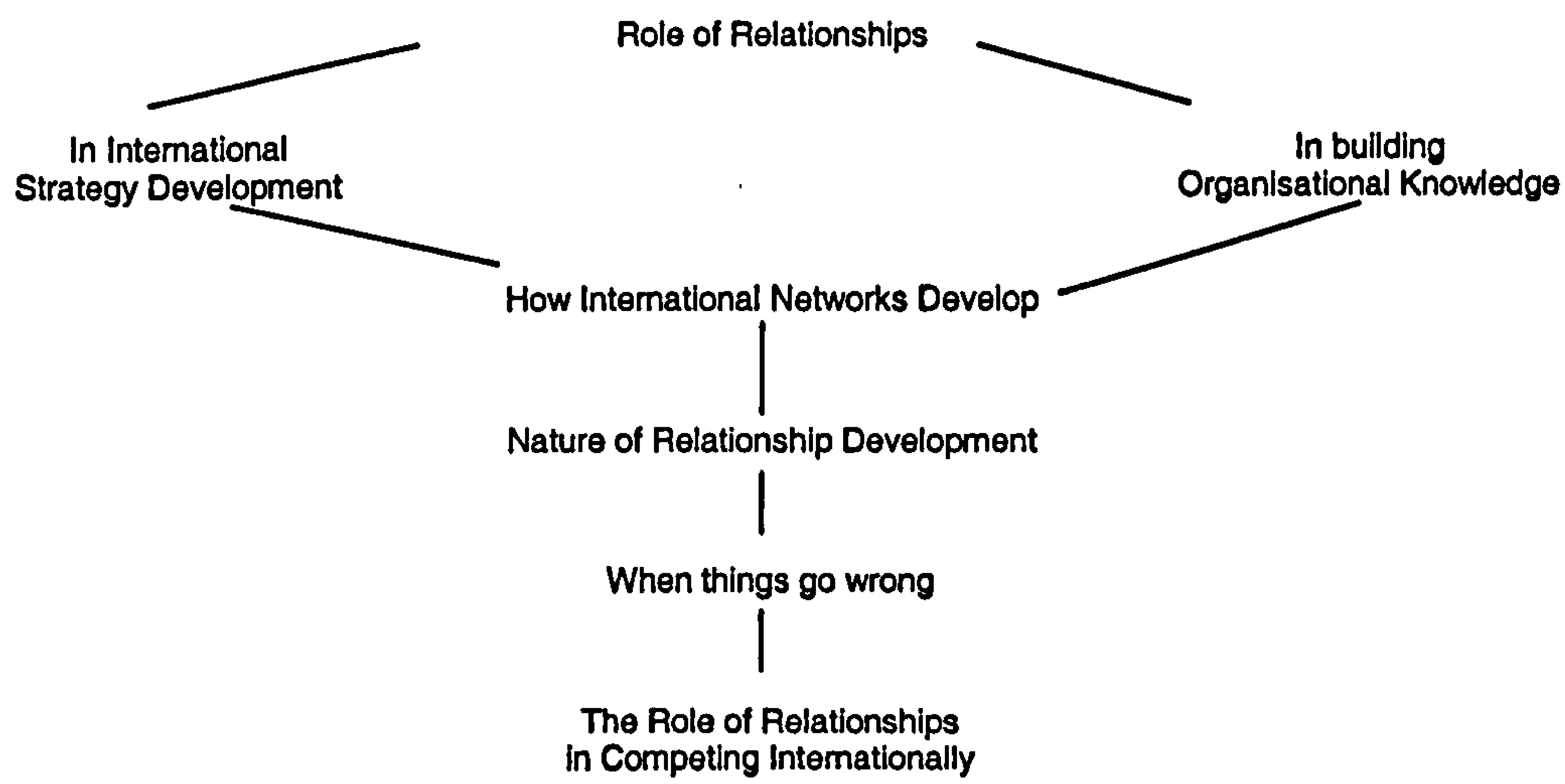
Introduction

The aim of this chapter is to explore the role which relationships played in the firms, studied longitudinally, in competing effectively on international markets. The types of relationships formed and how these relationships contributed to the development of international strategies is examined.

The chapter therefore builds on the findings of previous chapters. In Chapter 4, it was suggested that a network of relationships was important to the process of structuring and organising a firm's international activities and, so, was identified as a theme to be researched, longitudinally. In Chapter 6, the relationships formed were seen to be considered, by the firms studied longitudinally, to play an integral part in the process of developing international strategies. It was suggested that, it was through the development of these relationships that the firms were able to orient themselves fully towards their international markets and so understand more clearly developments and changes in their markets to ensure the ability to react and respond at the appropriate time.

In this chapter the underlying processes of relationship development in the firms studied is more fully explored. The structure for the discussion in this chapter is depicted in Figure 10. The role of relationships in helping firms build both a sustainable competitive advantage on international markets and a knowledge of those markets is explored. How relationships are developed is examined, and the issues in managing long-term relationships discussed. Finally, the discussion of the preceding sections will be synthesised and conclusions drawn as to the role of relationships in firms that compete effectively on international markets.

Figure 10: The Structure of the Discussion on the Role of Relationships



The Role of Relationships

Whilst there are a variety of definitions of relationship marketing, one of the most frequently used definitions is that by Gronroos (1997).

> "The role of marketing is to establish, maintain and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises" (p.327).

Relationship marketing has been the focus of much academic research in the past decade. As discussed in Chapter 1, scholars have increasingly questioned the sufficiency of transaction marketing rooted in the exchange paradigm in explaining marketing strategy, (Gronroos, 1994, 1997; Gummesson, 1997; Christopher, et al, 1991). Some of the criticism, was based on the outcome orientation of the exchange paradigm, in which it was argued, by the above authors, that the concern for quality, customer service and customer retention was not adequately incorporated. This represented a shift in the perception of the fundamentals of marketing, and challenged the use of the marketing-mix paradigm as the basic foundation for marketing thinking. Kotler (1992) too talked of the need for firms to move from a short-term transaction-orientation to a long-term relationship-building orientation:

> "what I think we are witnessing today is a movement away from the focus on exchange, in the narrow sense of the transaction and towards a focus on building value laden relationships and marketing networks. We start thinking mostly about how to hold our existing customers. Our thinking is moving from a marketing focus to a relationship focus." (p.14)

This was supported by Webster (1992). He argued that the narrow conceptualisation of marketing as a profit maximisation problem focused on a series of marketing transactions/exchanges had become increasingly out of touch in a decade that had seen an increasing emphasis on long-term relationships and the formation of strategic alliances. In Chapter 4 it was suggested that in explaining how SMEs competed effectively internationally over the longer term it was perhaps necessary to draw from the relationship marketing literature.

It was suggested in Chapter 6 that a relationship focus was considered, by the firms studied, to be central to the way in which the firms built a competitive advantage on international markets. B F Rail, Thompson and Stadium, each had a customer base that was fairly limited in number. The firms considered, they had a good working knowledge of their immediate customers. It was by building close-knit relationships with customers that the firms felt they were able to add value to their product offering. B F Rail, Thompson and Stadium had focused their marketing strategy on developing and maintaining relationships whilst developing internationally. In the case of Flybait, Williamson and Fox this had not necessarily been the case. The recognition of the need to develop close relationships had occurred at a later stage in their international development, when changes in their international markets led the firms to a reassessment their strategies. All of the firms, during the time period of following them longitudinally, considered their relational strategy central to their long-term objective of maintaining their competitiveness on international markets. Table 7.1 summarises the key strategic objectives the firms considered they were trying to achieve and the type of external relationships formed.

Table 7.1: The Different Types of Relationships Formed

Company	Parties within the network of . Relationships Formed	Strategic Objectives in Forming Relationships
B F Rail	Contractors and Buying agents, Business Link, Local industry network	Access to markets, build barriers to entry, stepping stones to extending international portfolio, image enhancement
Fox	Distributors, Safety Industry Associations, Export Development Counsellor, Research partnerships	To improve level of support to end user, gain access to markets, build barriers to competition
Flybait	Manufacturing partnerships, close relationships with freight forwarders, distributors and retailers,	Competed on the supply chain, used relationships to tie in customers, keep out competition, access to information.
Stadium	Close customer relationships, technical associations, manufacturers of ancillary products	Added value customer service strategy, to build repeat business, hold the international strategy together
Thompson	Close customer contact, a network of industrial, financial and political contacts across international markets	Effective communication links, build knowledge networks, advance knowledge, support in meeting strategic challenges
Williamson	Distributors, retailers and informal networks with producers of complimentary products, research associations	Barriers to competition, to build knowledge, support in times of crisis, to build brand identity on international markets

The firms studied used the relationships in a number of ways; to build barriers to inhibit competition, to gain access to markets, to improve the level of market support and to gain timely knowledge of events occurring in the market place. As such the objective was to build relationships that enhanced their international competitiveness over the longer term. The perspective on time was an important one. Gronroos (1997), argued that in transaction marketing the focus of analysis was on a single transaction. Therefore a short-term perspective would be taken and performance would be evaluated by measuring the short-term outputs of that transaction. Thus he suggested, a company that had the objective of developing long term relationships would not be too concerned by the unprofitability of a single transaction if it contributed to the long-term development of a strategic relationship.

Such a notion could be criticised for stating the obvious. It could be argued that any SME desiring to compete internationally would need to develop good relationships, in which case, examining the relationships formed by the firms being studied would not contribute to an understanding of firms that compete effectively on international markets. Palmer (1997) however, postulated that many smaller firms did not succeed in overseas markets due to their failure to understand the basis on which buyer-seller relationships worked in overseas markets. They, therefore, failed to establish the pre-requisites for turning transactional exchanges into a relational exchange. Furthermore, the importance of relationships to SMEs in their international markets has not been well supported in the research literature. It was suggested in Chapter 2 of this thesis that the normal paradigm within which explanations for SME performance on international markets had been sought, followed, the traditions of the positivist paradigm and was deterministic in nature. Thus, consistent with the general marketing literature as discussed previously, the traditional route adopted by previous research was to examine the variables within an individual transaction or exchange to isolate the key success variables. Within the context of SME international marketing theory development, this meant, that many of the studies reviewed examined the relationships SMEs had in international markets as conduits for the physical distribution of their products to distant markets. Evangelista (1996) and Styles & Ambler (1994) were notable exceptions. The conclusion of the Styles & Ambler study of 127 winners of the Queen's Award for Export Achievement in the UK, was that the relationships of a firm were responsible for providing information and resources to the firm and so helped facilitate better decision making and, therefore, contributed to export performance. Styles & Ambler proposed the relational paradigm as an alternative framework for explaining the performance of SMEs in international markets and signalled the need to refocus research in this area from being concerned with the measurement of short-term outputs of export transactions to seeking explanations by studying the network of relationships formed by SMEs. Evangelista (1996), in a conceptual paper linked a relationship marketing strategy to export performance in industrial markets. Evangelista proposed that SMEs in industrial export marketing, on the whole operated with a relatively small customer base where customers were identifiable and known to the seller. The role of marketing, therefore, in establishing, developing and maintaining relationships with a portfolio of international customers in such markets needed to be better understood.

In exploring the nature of firms that successfully competed on international markets, therefore, a key element included was the study of the relationships formed by the firms in building their international strategies, the type of relationships they formed, why they formed them and to what extent these relationships contributed to a firm's ability to compete on international markets. This chapter examines each of these aspects of the firms studied and draws upon the literature within the relationship marketing paradigm in seeking explanations for the findings. The contributory value of this chapter is therefore that it enhances the understanding of how relationships are used by SMEs to organise and structure their activities on international markets in building a sustainable competitive advantage across those markets.

Gummesson (1994, 1997) identified thirty different types of relationships that constituted relationship marketing. All these relationships, he proposed, should be managed in order to establish a relationship with the ultimate consumer. Ford (1990) described *a web of relationships* that linked firms in a network. Hunt & Morgan (1994) classified the scope of relationships into the more manageable number of four principal domains: buyer partnerships, supply partnerships, the internal partnerships of the employees and business units and lateral partnerships (ie competitors and governments, other agencies). Whilst these authors were referring to larger organisations, this classification offered a way forward in exploring the role of relationships formed in the firms studied. In the next section the ways in which firms used the relationships developed to help form and deliver international strategies will be explored and in the one following, the role of relationships in building organisational knowledge will be explored.

The Role of Relationships in International Strategy Development

Buyer Partnerships

B F Rail considered the importance of their network of buyer partnerships was in the capability it gave the firm to access new markets and ensure the firm was informed of new market opportunities. Thompson considered the importance of customer partnerships was that they helped to keep the customer close to the firm. As Thompson frequently stated:

> "I think the one inescapable fact is that you do business with people, not facts, so it's all about communication. It's always down to people you know. If you've got a great relationship with a customer, he's more likely to give it to you than buy from someone who's not made the effort."

Thompson, Stadium and B F Rail, traditionally dealt directly with all their international customers, offered a bespoke product and operated in a broad spread of markets where, often, they only had one or a few customers. They saw the building of close seller-buyer relationships as fundamental to building repeat business. The relationships formed by these firms were akin to the *co-operative buyer-seller relationship* as identified by Heide & John (1990). Both Thompson and Stadium were required by their customers to undergo inspections to gain entry on to the list of *preferred suppliers* for their clients. Once relationships were developed they built a long-term relationship of co-operation on a number of activities, joint problem solving, commercial activities and exchange of information and worked toward closer alliances with customers.

Evangelista (1996), argued that this continuous exchange to build the interaction process, included the exchange of information and social elements as well as problem solving. He suggested that it was through these elements that contact patterns were established and that it was these contact patterns which resulted in added value and so became a basis on which SMEs could compete. B F Rail, Stadium and Thompson placed great emphasis on the added value they offered though high levels of customer support and the ability to facilitate any requirement from their customers. As such, they organised their marketing efforts to building a close relationship with their customers which then became a barrier in itself to potential competitors. Stadium poetically articulated the need to build relationships in order to sustain the firm's competitive position:

> "Your shoulder hurts for a while banging at the door, but once you're in you've got to make sure that you stay there because if you ever get to these places and they kick you out, it's inevitable that it'll be a hell of a job to get back in."

Long-term buyer-seller relationships were considered crucial in enabling the firms to know, understand and anticipate both the movements in international markets and the needs of both indirect and direct customers. In dealing with the strong appreciation of sterling in the period 1997 to 1999, as was discussed in Chapter 6, the firms studied were able to develop proactive solutions through the close relationships built with their customers, allowing them to negotiate equitable solutions. Equally, Flybait, Williamson and Fox considered the development of close relationships with buyers as critical in meeting the challenge of customers sourcing products from cheaper sources of foreign supply.

The conceptual underpinnings of relationship marketing was in, *the interaction approach* developed through research of the International Marketing & Purchasing (IMP) Research Group, and the Nordic School. The research was predominantly based in the industrial (business to business) marketing context, the same context in which the firms studied longitudinally operated. The IMP group interviewed 878 buyers and sellers from 318 firms throughout Western Europe. They proposed that a model based on buyer-seller co-operation, rather than the traditional buyer-seller as adversaries model, was a better representation of marketing strategy. (Hakansson, 1982; Turnbull

& Paliwoda, 1986; Ford, 1984, 1990). This was very much consistent with the co-operative buyer-seller relationships discussed above and relevant to the findings emerging from this study.

Thompson in fact saw their whole business ethos as a system of co-operative partnerships:

> "So we've got partnerships, we've got trust and commitment on both sides with company employees and with our customers and we've built our business on these principles."

Thus whilst buyer partnerships were crucial, the internal partnerships were also considered critical in competing effectively in international markets.

Internal Relationships

Internal relationships are the partnerships developed by the senior management / managing directors with the employees of their company. Such partnerships were considered, by the respondents, to be of substantial strategic importance to the success of the firm's activities on international markets. The mangerss interviewed viewed them as critical to building the capability to support and maintain external relationships over a period of time and so ensured the effectiveness of the strategy the firm had built in international markets.

There was strong agreement on this point across all the firms:

> "A well managed company, the customer service system, the financial controls are very, very important because if you don't have those in place then it jeopardises the relationship and it jeopardises the strategy." (Williamson)

> "They're *(customer support systems)* all important, but they're all very much inter-linked and unless you've got them things will fall apart. It's these that keep the relationships together." (Stadium)

> "I've always said it. We always try to make it as easy for our customer in Australia to buy from Thompson as to buy it from there so that means our procedures have to be exact." (Thompson)

In order to achieve efficient systems, partnerships within the firm were considered to be a vital part of the process. It was clearly important to the senior managers and owners interviewed that they were perceived, as having built an internal environment that was viewed by staff as being participative and inclusive. A summary of their aims in building internal relationships, as articulated by the managers interviewed is given in Table 7.2

Table 7.2: Aims in Building Internal Relationships

Fox	To build a culture of fairness and freedom from stress
B F Rail	To instil a strong commitment to the survival of the firm
Flybait	To build a co-operative which is inclusive of all
Stadium	To develop a strong team culture and commitment to self development
Thompson	To build a network of partnerships based on trust and commitment
Williamson	To include all staff in policy making and build close teamwork

To a certain extent these aims are a reflection of the personal values of the respondents and their aspirations as to the type of internal partnerships they would wish to develop. Kotey & Meredith (1997) studied the relationship between personal values, business strategies and enterprise performance in small businesses in the UK. Their research showed that personal values of owner/managers, the strategies they adopted, in managing their firms and the performance of their businesses, were empirically related. Thus having such values could be an important factor in understanding the nature of the firms being studied. From the perspective of the managers being interviewed, internal partnerships were a critical part of their relationship strategy.

This was certainly in evidence in Flybait:

> "Everyone is important, from the man on the shop floor to the people in the field. We can't work without any of them. We're a team. Well we want people to feel that. I mean we want the cleaner to feel that she is, she knows that we care for her, we're a co-operative, you know. That has everyone working for the benefit of the whole".

This, in the view of the Managing Director, was not altruism, Flybait believed:

> "that's what we need in order to grow internationally and continue to grow."

Williamson held a similar view:

> "we were very much a team, very much a two-man team and if you like, Chris was sort of the Captain, you know, but we were both on the pitch at the same time, so, even within the export markets that she'd got prime responsibility for, then there was a shared understanding of what was important." (Williamson, 1997, referring to the European sales manager who had recently left the company)

Thus, companies felt they needed to have people within their companies whom they could trust. A key assessment criteria in appointing people was that potential employees held similar value systems. In 1997 when Fox appointed a new European Sales Manager they justified their choice by saying:

> "when we recruited for this position there was a short list of three people. All were good, very professional sales people, but somehow the others didn't quite fit into the company properly and none of them had linguistic skills."

It seemed that the priority was to build an internal culture consisting of partnerships they could trust. As B F Rail said:

> "You need to be with a team of people that you trust and they know you do."

Hurley & Hult (1998) suggested that the deepest manifestations of such values were at the cultural level where, over time, stories, reinforcement of behaviours, and the creation of organisational processes produced a basic assumption among employees that customers and the character of the firm itself were intrinsically important.

It was perhaps by building these basic assumptions into the internal partnerships that the confidence of the firms studied, to move forward in international markets was built. Thompson seemed to suggest such a notion:

> "people pull together rather than pull against. There is a strong determination, I would say, throughout the company to do things well. I mean I know it's a cliché, but it's one of the reasons for success, you know. We want to always be the example to follow in whatever we do. I know our export development and overall strategy has been copied. I know that our technical documentation, certification procedures have been copied by competitors. Oh a lot of people, customers and suppliers alike tell us that we're the model."

Such values then, could perhaps be linked back to the suggestion in Chapter 6 that firms that competed effectively on international markets had a strong core purpose and a clear strategic direction. Collins & Porras (1997) proposed that the values and principles held by the firm were critical in creating the climate in which such business strategies could develop, and it was these values which underpinned the *core purpose* developed by the firm. Such values can be seen underpinning the firms efforts in building effective teams within their firms.

It is perhaps self evident that firms would endeavour to employ people that could be trusted to do their jobs and had similar value systems to the managers who employed them. Likewise, it was difficult to prove how far the aims and aspirations expressed in this section were actually achieved by the firms, or how far employee's within their organisations shared the views of the senior management. Nevertheless, from the perspective of the person's being interviewed, internal partnerships were considered a key strength in their ability to compete effectively internationally and they therefore endeavoured to build strong internal relationships. The level of commitment that was sometimes required to achieve such objectives can be illustrated by examining the crisis faced by B F Rail in 1998.

A key strategic objective of B F Rail in developing its international business was to build a widespread customer base across a number of markets. It had been the Managing Director's conviction that this had been absolutely necessary to the survival of the firm when it lost its traditional market base in the UK.

> "For the first time in my life I had no-one to turn to, like other companies. I was the MD and couldn't blame others. I was responsible and it was up to me that the others kept their jobs. It was make or break."

In the period 1990 -1998 the firm was highly successful in achieving this objective. By 1998, over forty per cent of the company's turnover was derived from international markets. Despite the success, in that year, B F Rail faced the threat of closure when the Chairman of the company decided to move the company to empty premises in County Durham. He asked the Managing Director to move with the company. The Managing Director, a partner in the business, decided to buy the company outright so that the firm could stay in its present location. In explaining why he made such a drastic decision the Managing Director said that he felt he had no other option:

> "We've got a very loyal workforce here and they've been here for a long time and although I don't want to sound condescending, but there's, not a lot of people, but there's probably eleven people here who've depended on B F Rail's products to pay their mortgage, to pay the supermarket bills, and I'm anxious the same as them, you know, I was in their position only a few short years ago and I thought well if I can buy the company for a reasonable amount then it's worth a go really; and so I negotiated with the Chairman."

Thus his perception was one of *no choice*. The company he had built was based on strong personal values and he considered that the loyalty of the workforce had been critical to the success of the firm in the past decade and it was they, that were of paramount importance to the future of the company. He therefore, made the positive choice to build a business, which, in his view, not only secured the livelihoods of its employees, but also ensured it was not dependent on one geographical single market. An appreciation of how such values motivated the firms, it is suggested are critical to understanding the nature of the firm and highlights the importance of the formation of the values of the owner / managing director in establishing the strategic direction of the firm in effectively competing internationally.

The strategic direction taken by a number of the firms in the period of the study was to develop closer links with the supply chain. Such relationships are explored in the following section.

Supply Chain Partnerships

Merrilees & Tiessen (1999) suggested that SMEs that followed a differentiated strategy rarely had any power in the niche markets they targeted. Therefore, the formation of relationships were important to help SMEs enhance that power. Such a notion is of interest in exploring the strategy followed by firms such as Flybait 1996-1999.

Faced with the challenge of cheaper imitations of their products, Flybait, decided to actively pursue a strategy of building efficiency advantages in the supply chain and so between 1996-1999 developed closer supply chain relationships. The first major partnership was the formation of a manufacturing alliance in Kenya. This allowed Flybait access to cheaper raw materials and meant the cost of assembly was less than if carried out in the UK. Thus this alliance, gave them the capability to supply a wide range of fishing flies to their international markets that were both innovative in design and cost effective. From 1997 they began to develop a system of using *preferred carriers* to supply their international markets. They worked closely with these partners to streamline working practices and enhance efficiency. The objective was, according to Flybait, to develop more coherent relationships through to their customers in international markets. Partnerships in international markets need time and resources to develop a fruitful relationships (Evangelista, 1996). Flybait considered that they had a greater chance of competing effectively in the longer term if they built enhanced relationships with members of their supply chain:

> "We've realised that the people within our business are our most important asset. But then we've realised that the wider picture are the suppliers and their people, they're important to us. So under our supply chain management we've gone into partnering companies. "

The partnerships that Flybait established had been set up with the objective of exploring ways in which Flybait could work more closely together with various intermediaries in the supply chain. Flybait offered a 48 hour guaranteed delivery across Europe. In 1999, Flybait claimed a performance rate of 94% against a performance rate of 15% by their nearest rival. They considered that the partnerships established had led to a greater sharing of knowledge and information and a reduction of costs, through the streamlining of procedures, and that this had helped considerably in the achievement of the objective stated above:

> "It helps us reduce our costs and speed up our processes, we do not ask for quotes, so they never have to prepare a quote."

Gummesson (1997) saw the added value created through the interaction process as a main feature of relationship marketing. As the partners built joint efforts, they created value for each other. Thus, the roles in the supply chain become increasingly blurred, the process of seeking and engaging in relationships, and the process of managing and monitoring the performance of relationships then became an integral part of the strategy process. Hill, McGowan & Drummond (1999) saw such partnerships as an "intangible asset, the value of which is intrinsically lodged in the individual and personalised way that relationships that make it up are nurtured and developed"(p.72).

This was considered to be so by Fox, who saw the strength of relationships built with their distributors in international markets as the most effective means of ensuring an efficiency of operations across their international markets. Pulling intermediaries closer to them was also the means by which barriers were built against possible competitors,

> "As Export Manager I've always said that my job is building a business between the two companies. Developing the relationship is important as far as export is concerned because we're all going in basically, and we're all saying the same thing, mine's the best thing since sliced bread....it's only by persistence, enthusiasm and showing the guy over a period of time that you're serious in what you say that you can build anything in that market."

Williamson operated in a fairly low technology market where in the period 1996-1999 they faced several difficulties in maintaining their product lead in international markets. Williamson considered this was due to competitors in South East Asia and, particularly, China, copying their product and attacking Williamson in their European markets. Williamson sold to wholesalers and retailers. In the period of the study they also considered a major challenge they faced in their European markets was the contraction of the supply chain. Retailers were internationalising their own activities and increasingly sourcing products on a European wide basis. Williamson responded by reviewing and restructuring its distribution operations across Europe and seeking to tie in distributors and retailers, through such things as joint marketing initiatives and the offering of a rapid and flexible design service, in order to build barriers to the competition.

Thus, when firms found it increasingly difficult to compete on their product offering alone, and when competitive conditions became increasingly hostile, the capabilities built through supply chain partnerships became an important vehicle by which the firms differentiated themselves from competitors in international markets. Central to maintaining and developing such relationships was the fact that the relationship itself created value for the partners. Wilson (1995) saw the value creation in a partnership as the process by which the competitive abilities of each partner were enhanced by being in a relationship. Thus, the value is founded on the *hybrid structure* (p.342) that evolves. In building a relationship over the long term a major issue is how the two partners create and share this value and therefore fulfil the promises made (Gronroos, 1997).

Williamson, Flybait and Fox, built their initial international success on the basis of a highly innovative product. In the early stages of their international experience, developing a network of close relationships was not a priority in building a competitive advantage internationally. It was later, when the firms had their competitive positions challenged that, in responding to that challenge, they actively developed a relationship-marketing strategy. As Fox articulated above, every potential distributor or retailer faced a large number of suppliers claiming to be the best, through the relationships formed and the added value built, the firms endeavoured to sustain a differentiation between themselves and their competitors.

Thus, relationship development played an important role in enabling firms to engender the capability to sustain a competitive advantage over the long-term. Central to this was the fact that it was through their relationships that the firms developed their knowledge base of the changes occurring in these international markets. The role relationships played in developing this knowledge base will be discussed in the next section.

The Role of Relationships in Building Organisational Knowledge

The relationships formed by the firms studied not only helped to develop and deliver the international strategies of the firms studied, but also informed strategy development.

As previously stated, firms studied considered buyer/seller partnerships as important sources of market knowledge. As B F Rail said:

> "When we're doing research in export we tend to use the facilities that are available in the market. So a lot of that comes from the experience of our contacts there, they know the market. There aren't many statistics printed for our markets."

Flybait also used these relationships to gather information on new international markets:

> "I mean, suppliers can be a brilliant source of new market information. We use them more than anything to find out what's going on."

Stadium saw them more as important vehicles in the process of opportunity identification and analysis.

> "The relationship meant I was able to sit and talk to people and see opportunities, and make sure I was in the right place to spot the opportunities."

In a later interview he reinforced this view with an illustration of how relationships can help spot opportunities.

> "There were one or two telephone conversations and little bits were dropped out, and this French company was mentioned and everybody sat bolt upright, ' What's going off here? Whoof - get somebody out there and go and talk', and from that we found out just exactly what had happened. The amount of business that we got from this company has been terrific and they are a young company. They are wanting to expand."

This example is interesting, as it shows a willingness by Stadium to listen and act upon information that had been received through very informal means. Cromie et al (1994) suggested that the bulk of information obtained by SMEs emerged from conversations with a range of contacts within their social and business networks. Hill, McGowan & Drummond (1999) explored the personal networks of small firms entrepreneurs in the UK. They suggested that decision making often took place in situations that were often confusing and within tight deadlines. Managers therefore needed to short cut the analytical process as they did not have the time or the resources for more formal analysis. In the case of Stadium, even though the situation was vague, the company was willing to commit the necessary resources to send someone out to the market to gather more information. Relationships were considered important, not only because they gave the company access to information but, because, that information was perceived as being timely, relevant and up to date. It was because of this perception that the management showed an open-mindedness and a willingness to act on the information received.

Partnerships were considered an important source of knowledge, but in addition to the types discussed in the previous section, the *lateral* partnerships formed by the firms were also viewed as important sources of information. Consultants, universities, government agencies and other firms all possessed knowledge perceived as valuable to business, (Achrol, 1991; Dickson, 1992; Kanter, 1989; Webster, 1992). Such partnerships were defined by Hunt & Morgan (1994) as lateral partnerships and were used in varying ways during the process of knowledge acquisition by the firms studied.

Lateral Partnerships

In the development of a knowledge base for international markets developing a network of *lateral* partnerships was considered vitally important by the firms studied. In the case of Thompson, this was with a range of contacts in the governments of the international markets in which they operated as well as financial circles. Williamson, on the other hand, formed relationships with producers of complimentary products who operated in the same international markets and from whose international experience they could benefit. Stadium had close links through their trade association and also with a number of other forgers in international markets, who operated in other parts of the forging market. Stadium, like Williamson, developed close links with producers of complimentary products, in their case, packaging producers, who also served the surgical instrument market. The objective of the relationships was to gain access to specialist knowledge, either to understand better the most efficient route to market, or to obtain advance signals of imminent occurrences in the market.

Hill, McGowan & Drummond (1999) suggested that in many small firms there was often a sole decision maker. They therefore, needed to find ways of enhancing the quality of decision making and of seeking assurances that the decisions made were valid and appropriate. It was with such intentions that the firms studied sought out lateral partnerships, not only in this country but in their international markets. As Thompson explained:

> "Our information does come from customers around the world, A lot comes from customers. But it's not just customers, the contacts are in banking, in shipping, in anything you know, this information comes from various parts of life and they enable you to actually draw up a picture of what is really happening in the country, not just what people want you to know."

This was considered central to the value of the knowledge acquired through relationships, in that it was knowledge that was trusted and seen to be of greatest value in helping the firms make appropriate decisions. As B F Rail said in one interview:

> "The market was telling us one thing, the actual figures were telling us something else. Our contacts were telling us things were heading downwards but our sales in those markets weren't affected at all. So we knew it was a matter of time, so it really proved, if not crucial, valuable in terms of signalling things."

This was also the view of Fox, who held the view that:

> "all published information is available to anybody picking up any newspaper, or on television...... No, I always say, get it yourself, pick up the phone, do your own market research, make your own contacts out there. It does not cost a fortune. It's obtaining a fair and unbiased view of what is actually happening."

Thus, as was discussed in Chapter 4, the view expressed was that, whilst the firms, may gather organisational knowledge through secondary sources and through formal reports, the organisational knowledge that was perceived to have greatest value to the decision making was generated through their network of relationships. A view that was strongly felt by Thompson:

> "The real information is the one that comes from the people out there that you can trust. And you trust them if you know them very well. I call my friends in Bangkok, or in Jakarta, or wherever, and say, 'look, what are things really like', and these guys have come back with information on companies, for example, having great difficulties in obtaining import licences and things like that. Now this is never documented in the press. The DTI would never even tell you about that."

Thus, the relationships developed were considered important sources of market knowledge by the firms studied. It helped them to *sense* what was happening in their international markets. This type of *soft* information was a key factor in helping the firms form a judgement as to the appropriateness of decisions and perhaps more importantly, the timing of those decisions. SMEs with limited resources, with neither the time for, nor the skills in information evaluation, seemed to use the partnerships they formed to short circuit that process. Firms seemed to place a greater value of trust on this type of information than that gained from more formal sources.

Lateral relationships in the international market were also important for allying fears and building confidence. For instance, Williamson often face quite stringent legal restrictions in some countries.

> "You can be horrified by them and see them as 'Oh God!, we can't possibly cope with those!' But you can and you've got to. And I think what we found is that if you've got the relationship, you can talk to people in the market and they help you work through it."

The smaller firms, Fox, B F Rail and Flybait, had very close links with their local export development counsellor and were involved in a number of initiatives developed through their local Business Links. In the cases of the smaller firms, the lateral relationships provided extra resources in the form of information, finance, and perhaps more importantly, a counsellor through which ideas and plans could be discussed.

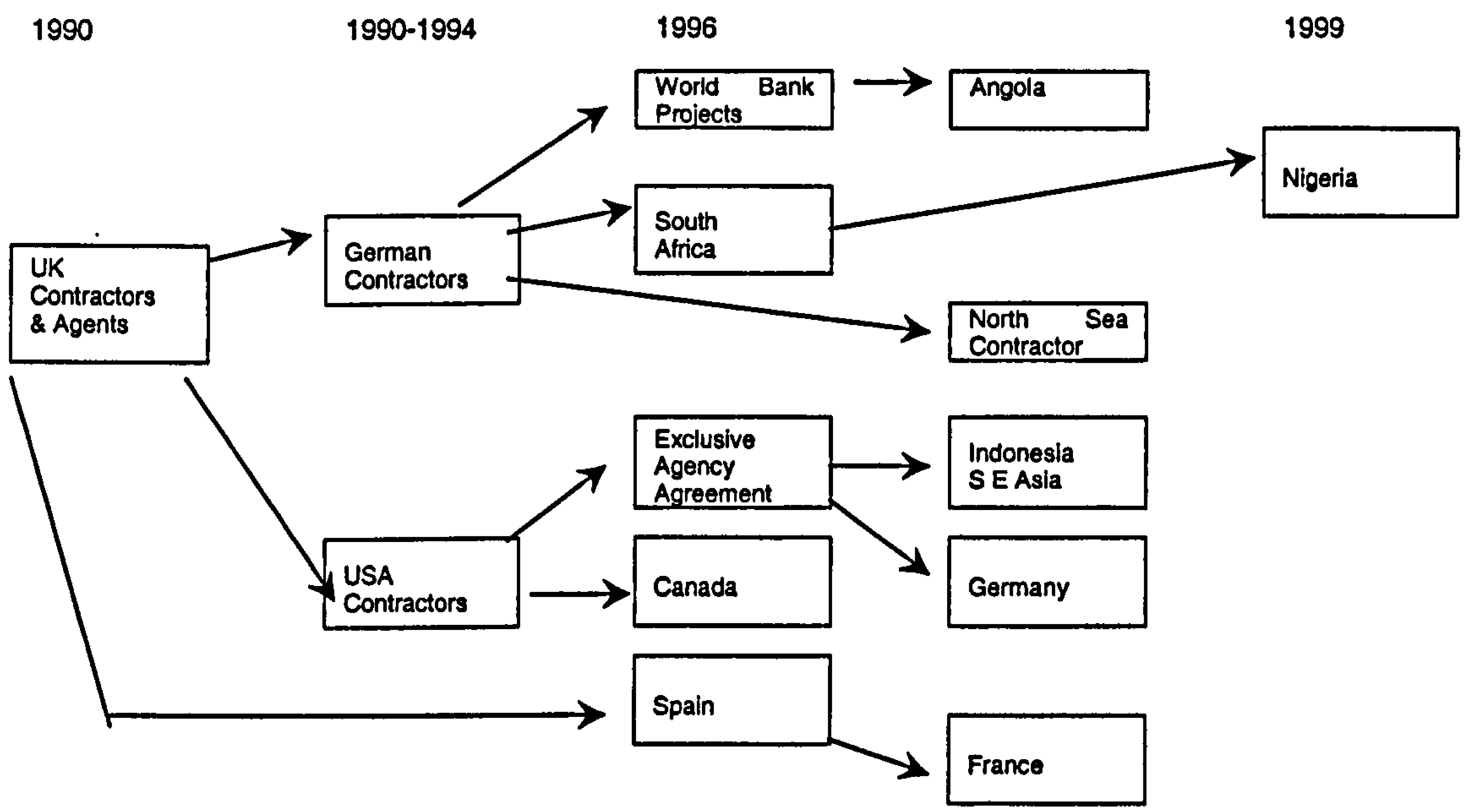
In summary, therefore, the firms studied, it is suggested, through their relationships gained access to specialist resources. Hakansson & Snehota (1995) suggested that the key elements of a network of relationships consists of *actors, resources* and *activities.* All of these were inter linked, the actors performed activities and released resources for the activities to occur. The activities would change over time depending on the resources released and the way in which the actors managed both the resources and the activities. The firms studied seemed to use their relationships not only to acquire information, but also as a moderating influence to help them form a judgement as to the events and activities in their international markets. As such, they were an important influence in enhancing the efficacy and, perhaps more importantly, the timing of decisions.

Hakansson & Snehota (1995) considered relationship development a two way process, the balance of which would need to be equitable for the relationship to develop. In the following section how the firms developed their network of relationships and the decision-making process undergone in forming those relationships will be explored further.

The Developing of Networks of Relationships

In the firms studied, the manner in which the network of relationships were formed by the individual firms showed some interesting insights. Whilst all the firms used different terminology they invariably considered the development process of their network of relationships as multi- lateral, circular in nature and as an interdependent network. B F Rail specialised in producing components for railway tracks for use in tunnel construction and other light industrial railways. With very limited resources, B F Rail established a number of key relationships in international markets as a first layer of a network of contacts. This first layer of contacts then acted as gateways to new markets and new contacts and so the effectiveness of the original contacts was multiplied many times. A timeline illustrating the process by which B F Rail built their network of relationships is depicted in Figure 11.

Figure 11: A Timeline Depicting the Development of the B F Rail Network of Relationships



Coviello & Munro (1995) suggested small entrepreneurial firms developed relationships as a strategy to internationalise across a large number of markets. They suggested that such partnerships helped to extend their boundaries, reduce risks and acted as a stepping stone for the smaller company. B F Rail's international portfolio originally grew out of its relationships in the domestic market. As the firm developed, and enjoyed success with a number of new international contractors and agents, it went on to develop different types of relationships. The World Bank project in Angola signalled a new strand to the strategy as did the formation of closer alliances in Canada and the US. Through the formation of the network of relationships, B F Rail gradually focused their international strategy on two key segments, construction tunnels and light industrial railways. In 1999 they proactively developed new relationships in both these sectors and reduced their dependency on the original partners. Thus as Covellio & Munro suggested, the original partners acted as stepping stones to partners in markets further afield.

Flybait, as previously discussed, followed a highly proactive strategy of further developing their international business portfolio through a strategy of partnerships and alliances in the period between 1996 and 1999. Firstly, through developing closer relationships in the supply chain, both backwards through manufacturing partnerships and forwards with distributors and freight forwarders. Secondly, by building closer links to the customer through improved customer services, quality assurance and efficient distribution systems. In 1999, the company had set a three-year horizon, in which they planned to expand the circle of partners to further develop their international business:

> "But moving forward will be, you know, a very slow process. We hope to implement it really over two or three years and we're still at the very early stages, but we're going to compete in the future as a supply chain. This may mean going further on from partnering customers to, maybe having some ownership of some of the businesses."

The development of a wider network of relationships was also central to the market expansion strategy of Fox. In 1997 Fox appointed a new Export Sales Manager. His priority in the first two years of his appointment was to consolidate the network of distributors, particularly across the European region. The company aimed, to both to consolidate their presence in existing markets, and gain access to markets currently not being serviced:

> "When I came in, they'd got, ad hoc distributors in Europe, if I look at my European distributors now we've got secure, long term relationships, partnerships."

Fox viewed their relationships in terms of layers.

In the primary markets of France and Germany, they had a well-established network of distributors. The secondary layer of partnerships in Scandinavia and Southern Europe in 1999, had been established, in the view of the Export Sales Manager. The firm at that point was in the process of establishing relationships in the Baltic States, Hungary and Poland.

Williamson, again in 1997, used the analogy of an onion to describe the development of their relationships:

> "We see our markets and products all inter-relating .Our policy is really to start off with the core market, the UK, but then to see Europe as maybe the next layer of the onion and then further afield to other markets but when we are developing anything we see everything as a global whole to see how things will develop."

Stadium used a similar analogy in describing the development of their international markets

> "we set off with a small circle and it's getting bigger and bigger and bigger. What we've got to keep doing, obviously, is if you expand like that, is make sure that the circle keeps close, that you don't have any gaps that people can sneak out and sneak through. But we appreciate the fact that whilst we are growing and what have you, we can't lose sight of the fact that if you start upsetting the customers that they're going to go away. I mean somebody will dive in."

Thus, the process of developing internationally was visualised as a series of multi-lateral circles rather than a linear process. Each new relationship formed in international markets served as a gateway to other relationships further afield, thus enabling the firms to develop a wider portfolio of markets. This is a very similar finding to that of Johannson and Vahlne (1992). These authors postulated that SMEs developed internationally through a multilateral cyclical process which linked the current activities of a firm, with their knowledge of other participants in international markets, to the local commitment and knowledge of the firm itself and in so doing, provided the link to further international development by the firm.

However, this process was time consuming and required investment by a firm if the network was to be built. How time-consuming this process can be was evident in the case of the contract in Nigeria, awarded to B.F. Rail in 1999. Several times in the conversations with B.F. Rail they rationalised the success of this venture in terms of *good luck*, or the fact that they happened to be in the *right place at the right time*. However the initial contact was made at a conference in South Africa which the Managing Director attended in 1996 with a contractor for whom he worked in Germany. The original enquiry came to B F Rail in 1997. For the next two years the Managing Director, kept in regular contact with the potential client, carried out a number of research activities and networked to try to overcome political and bureaucratic barriers. The contract for £500,000 came through in 1999, several months after he had completed the purchase of the company. On a turnover of £1.5 million, this was obviously a significant success.

Palmer (1997) argued that often, smaller firms did not succeed in overseas markets due to their lack of willingness to undertake the time consuming task of building a climate of co-operation and trust prior to any business exchange. This meant they also under estimated the time lag between the selection of a suitable partner and any discernible outcome being achieved. The *good luck* that B F Rail considered they had, was in fact a result of painstaking ground work by the Managing Director to get to know people, to build relationships and to make sure that BF Rail had built a reputation of reliability. Palmer (1997) considered such work as integral to building the climate of trust and co-operation for a long-term relationship to be established.

The IMP Group/Nordic School (Gronroos, 1997, 1994; Hakansson, 1982; Turnbull & Paliwoda, 1986; Ford, 1984, 1990) conceptualised buyer-seller interactions as being influenced by the atmosphere of the environment in which the relationship was developed. Such issues as the partners expectations as to the level of co-operation, power sharing and the potential trust between the partners were important components of this atmosphere. These elements were found to be central to the process of forming relationships in the firms studied and so will be explored further in the following section.

The Nature of Relationship Development

The importance of *trust* was raised a number of times by the respondents in the study, both in reference to the internal network of partnerships within the firm, but especially so with reference to external partners:

> "You have to trust them and we must understand each other. They mustn't feel they have to handle problems on their own." (Flybait)

However respondents did not find this an easy process:

> "They are the customer in the sense they're buying, so it's very hard to keep them to targets, so you have to be very careful and sort of get them to co operate, but it is difficult to control them, its all about negotiation and building co-operation." (Williamson)

In developing new partnerships, the priority for firms seemed to be to look for a synergy with the prospective partner. The firms studied considered it easier to work with organisations they viewed had a similar philosophy and were of a similar size to themselves, on the basis that these were the type of partners with whom they could build a relationship of trust.

Iacobucci & Ostrom (1996) used the four underlying dimensions of interpersonal relations identified by Wish et al (1976) to evaluate commercial relationships. The first dimension was the power symmetry / asymmetry continuum, along which relationships are judged as to equality in terms of the level of power of each partner. The second dimension was valence, the classification of relationships along the continuum of those who are co-operative and friendly (positive) to those who are competitive / hostile (negative). Thirdly was the intensity, the extent of interdependence in the relationships, casual to intense. Finally, whether the relationship was social or work-related, relationships that were work related being seen as formal and intellectually based, as opposed to social ones, which were perceived as emotionally based.

In the discussions held on why particular partners had been chosen, the achievement of symmetry and a positive valence seemed to be most apparent as a decision criteria. Firms actively sought partners that they perceived could influence the relationship and where neither of the partners had absolute control. Furthermore, there were very clear indications that firms were primarily concerned with choosing partners where there was a high level of co-operation (positive valence) and there was a synergy in the values of the two partners. The respondents chose partners within whom they saw similarities to themselves, and so felt they were able to trust.

> "Because he's like us. He works very hard, he believes in personal attention, and he believes in first class delivery back-up. He has a lot of the same philosophies as we have. They are primarily a sales marketing company and they're good at it. The people that work here are actually involved more in producing the product." (Fox)

This, to a certain extent, is what Holmlund & Tornroos (1997) referred to as the *degree of mutuality* in a relationship. Fox perceived a sharing of mutual values and achieved a synergy through a matching of different types of expertise. A similar view was held by Williamson. This firm saw their partners in international markets as *the face of Williamson in that market* and therefore looked for partners through which they could build their strategy, but also, who shared the same values as themselves. In reflecting on why they had built such a good relationship with one particular partner, Williamson justified their choice by saying:

> "They're good because they've got a wide range of house ware products, they are significant as a supplier and are represented in all the key sectors of trade, so we've got access to all those channels of distribution. They're very professional as an organisation, they run a very tight ship, they have very advanced control systems and so that's what makes them good."

They saw a good partner as somebody who had the same sort of values and professionalism as they had, but with expertise in the market place. Thus, like Fox, aimed to achieve a mutuality and symmetry in their relationships. In identifying partners with whom to develop relationships, therefore, the firm used specific indicators on which to base a judgement as to whether they felt they were able to trust, and so work with, the potential partner.

This mutuality and symmetry was often difficult to assess, especially when a firm was small and trying to make an assessment with very limited resources. Thus, even though the relationship was a commercial one, the social / work dimension was an important element, in that firms used the socialisation process to make their assessment. B F Rail, considered the important decision criteria was mutual trust.

This company felt they often had to make decisions on partners, sometimes with very little information. The key criteria for this firm, therefore, was mutual trust.

> "I mean you have to trust him and he has to trust you. I have to decide on the telephone whether I can do business with a guy......you know it's hard to break down the barriers."

In one case the barrier was broken with the discovery in a telephone conversation of a mutual admiration for Elvis Presley:

> "that made the difference, so within two minutes, it just developed. So then he came over to the UK and I introduced him to the family, I think if you can do that you're getting somewhere, you know, if you see a face in your home you soon know if you can trust it ."

This socialisation process acted as a proxy for a more formal evaluation. Merrilees & Tiessen (1999) referred to this as *the serendipity model* (p.332). They suggested that SMEs put their efforts into networking contacts and then allowed the actual selection process to be driven by a combination of chance and a sense that both parties had the right chemistry to do business. This was due to the fact that the internationalisation process often centred around one person, his knowledge and experience. The limited resources meant that it was through the established long-term relationships that firms gained access to, and mobilised, external resources. These resources were considered vital because many SMEs lacked the resources to build international business alone. The social bonds formed were an important element in, not only giving access to resources in the foreign markets, but getting access to vital and necessary information.

In the sample of firms studied, this was invariably so, particularly for the smaller firms, Fox, Flybait and B F Rail. It was for this reason that mutuality and trust was a key criteria in choosing partners to manage the business in those markets on behalf of the firm. Hakansson & Snehota (1995) suggested this trust took a long time to build and only emerged as the parties within the network fulfilled their commitments. When parties did not fulfil the commitments, expectations were not realised which could lead to a breakdown of the partnership. It was interesting to observe in the study that when a relationship went wrong, the firms saw this as a betrayal of trust and often saw the cause of that breakdown as being the responsibility of the partner in the particular international market, as will be discussed in the next section.

The Role of Relationships When Things Go Wrong

As was discussed previously, finding and choosing the right partner was considered to be a difficult and time consuming task by the managers interviewed:

> "Because all sorts of people will say yes, we can sell your products, no problem at all and you wait, and you wait, and give them every assistance and in the end they achieve very little for you."(Fox)

Gronroos (1997) postulated that relationship development was divided into two parts; the *attraction* of the partner and the *building* of the relationship, enabling the goals of the relationship to be achieved. An integral element of this process was the *promise concept*. A firm preoccupied in giving promises could, initially, attract partners. However, if promises were not kept, trust would not emerge and the balance of the relationship would be considered inequitable (Hakansson & Snehota, 1995) and so not be further built.

The marriage analogy has been used in relationship marketing literature since the metaphor was introduced by Levitt (1983). The basis of the metaphor was the importance of the promise concept, the long-term time scales and the need to build a trusting relationship in both commercial relationships and marriage (Levitt, 1983).

However, implicit in the marriage metaphor was the notion that a marketing relationship was a monogamous and close relationship. As was discussed earlier in this chapter the firms studied formed a number of different types of relationships for different reasons. Whilst many of the relationships formed were stable and long lasting, firms had a complex range of relationships. They were perhaps more akin to a close circle of friends than a monogamous marriage. Tynan (1997), in fact went further than this, in a critique of the use of the marriage analogy in relationship marketing. Rather than being akin to marriage, she suggested that commercial relationships were more reminiscent of seduction; when one partner was not yet willing to form a partnership, stalking; when a partner was covertly pursued, or prostitution when financial incentives were used to reward participation a commercial relationship.

However, like the institution of marriage, when things went wrong it was the partner that was blamed. Two of the firms studied, Fox and Williamson, contributed rich information that gave insights into how the firms dealt with errors of judgement made in their relational management. In the initial interviews both firms rationalised the market difficulties experienced by blaming the partner in the international market concerned. However, as the study progressed, it became clear that both firms had reviewed the situation, been prepared to recognise the shortcomings of previous decision making and developed strategies and made investments to rectify the situation. Thus, in both cases, the experience became an important learning experience, critical to the firm's evolving maturity. It is the insights that such examples gave that contributed to the understanding of firms that competed effectively on international markets and so made them interesting to explore in this chapter.

Fox

In the period 1990-1996, the international business of Fox grew substantially. However, the management of this was entirely in the hands of the Managing Director whose resources were increasingly stretched, especially as sales across Europe expanded. A number of new distributorships were established very quickly in this period with little assessment and little direct contact. An example of this was the distributorship set up in Spain. Fox, initially had high expectations of their new distributor in Spain:

> "My impression was that they were a company with a number of branches throughout Spain and they were proactive, had a lot of contacts and were just the sort of people that we were looking for"

However, in 1996 it became evident that promises made had not been fulfilled:

> "Really they were not in a position to, or weren't up to, fulfilling their promises. So that's something you can't necessarily cater for. The real problem was they felt the market could come to them but this doesn't happen."

However, whilst Fox saw the responsibility for this failure as lying with the distributor, it was evident that in establishing the relationships Fox had not been as thorough in their research as they had been in other markets. They had relied on the advice of a consultant to guide them and there had been no face-to-face meeting with the distributor.

Wilson (1995) argued that, in developing a relationship, firms should choose an information strategy that enabled them to determine accurately the true characteristics of the potential partner (as was seen in the above example of BF Rail). This was not viewed as having to be a formal process. As discussed earlier the socialisation process often acted as a proxy for a more formal evaluation in SMEs (Merrilees & Tiessen, 1999). However, these authors considered that a part of the process should be an element where the firm can assess the level of convergence of attitudes. This would enable the firm to judge the level of mutuality and symmetry in the relationship (Holmlund & Tornroos, 1997). Unfortunately for Fox, this had not occurred in their decision to select this distributor and the first face to face contact was when things started to go wrong.

> "There were problems all round, which is one of the reasons why I got on a plane in July and went out to see them. And then I found there was very little going on. They had a virtually empty machine shop where there were few machines working. One guy was doing repair work and that's really all I saw"

In response to the initial promises made, Fox had sent out a number of samples which then added to the problem.

> "Non-payment was a bit of a problem because they did agree to pay for a contribution to the samples we sent out (we sent two lots out) and it was very difficult to get money out of them."

In the end, by mutual consent, the partnership was terminated. There was an obvious lack of trust, but also a belated understanding on the part of Fox that this was not the right partner through which to implement a strategy in Spain. Whilst there was obvious failings on the part of Fox, to a certain extent their problems arose out of their success. In the period 1990-1996, the international business of Fox had expanded rapidly stretching the limited resources of the firm. However, the importance of this example is that the problems in Spain became a critical learning event for the company. It was considered by the Managing Director as the catalyst for the decision in 1997 to appoint a multi-lingual European Sales Manager to develop and manage a network of distributors across the European market. This signalled a major shift in attitude of the firm and constituted a significant investment for the company.

In 1998, after a much more structured and investigative process, the new European Sales Manager appointed two distributors in Spain, one for each specialist sector he had identified as the segments Fox should target. Thus, the firm had moved out of the market, retrenched, evaluated and learned from their mistakes, before moving back into the Spanish market with a new, and more cohesive, strategy.

Williamson

Williamson, like Fox, initially viewed the distributor not themselves, as the reason for failure in their key international market in 1997.

> "One of the major reasons for the decline in Germany was the problems we have had with the distributor."

Historically, Williamson had a profitable business in Germany. They had their own distribution company there which was sold in 1996 to the local management team. However, in 1997, the business was sold on. The new owners thought Williamson products were over-priced, and since they were sourcing many of their other products from the Far East decided to source their knives from there too:

> "they basically sent our products to the Far East and said 'copy these please' and stole our market within Germany. To complicate matters we were stuck in the worst contract ever,

> which meant that, had we tried to extricate ourselves from it before December 1998, we would have been liable, potentially, for a six figure penalty payment."

Williamson rationalised this, initially, as a change in the environment, over which they had little control. However, in later interviews, it became clear that as part of a larger review of all their European distribution arrangements, they concluded that having sold their distribution outlet they had in effect lost the control they had in the market. The sale of the distributor occurred prior to the start of this study. It was difficult to ascertain, firstly, the reasoning behind the original decision to sell, other than it was for financial reasons; and secondly, why the company was sold to a management team with a mature age profile. However, what became apparent, following the change of ownership, was the lack of goal congruence between Williamson and both the initial buy-out team and the final owners. The loss of the personal contact had, reduced both the mutuality and the symmetry within the relationship (Holmlund & Tornroos, 1997).

The lack of goal congruence was described by Heide & John (1992) as when each of the parties in a partnership pursued individual goals. Competitive behaviour then occurred, which resulted in a climate of conflict (negative valence), characterised by opportunistic behaviour. In this case, the lack of goal congruence led to the new distributor being dissatisfied with the terms and conditions offered by Williamson and so they sought other means by which their own objectives in the German market could be achieved. Morgan & Hunt (1994) suggested that low levels of functional conflict could be desirable and part of the natural process of realignment as conditions in international markets change. However, when conflict was non-functional, opportunistic behaviour occurred, creating dissatisfaction in the relationship, which then led, eventually, to its dissolution. This certainly happened in this case, Williamson became increasingly dissatisfied and frustrated due to their inability to end the partnership until the end of 1998.

In 1999 the firm began to rebuild its presence in Germany. They considered their strength was that they had a strong brand equity in the market, especially across retailers. However, they were mistrustful of establishing a new relationship, and so decided to wrestle back control in the market. They refocused on their core purpose of being, *leaders in edge technology* and worked to differentiate themselves from South East Asian competition by trying to regain their lead in innovation and design. They appointed a sales manager in Germany and planned to service the market directly from the UK, targeting the major quality department stores. They considered a key relational objective to be, to build closer relationships direct with key buyers in quality stores, some of whom were now themselves expanding to other European markets.

> "We have a high consumer brand presence and we've got a very strong portfolio, particularly relative to our distributor friends. We can manufacture design and source very effectively and very quickly, it is on that we will rebuild in the next twelve months"

Thus, even with the evident problems Williamson suffered in the market they decided to stay in the market and rebuild, rather than pull out. However, it should also be observed that in seeking a solution Williamson did not look at the German market in isolation. The review of their operations in Germany was part of a review and rationalisation of their product portfolio and their distribution arrangements across the European region. The solution they sought was consistent with their objectives across the European region to develop a more cohesive brand identity and greater efficiency in servicing key customers across markets through cohesive and well-balanced relationships.

Synthesis and Conclusions

Traditionally, explanations for success by SMEs in export markets have been sought in the marketing mix paradigm - product, promotion, place and pricing - which is rooted in exchange theory. In this chapter, the literature of the relational paradigm was drawn upon to seek explanations as to the nature of firms successfully competing on international markets. The network of relationships formed by such firms was considered to play a critical role in the development of their competitive advantage on these markets.

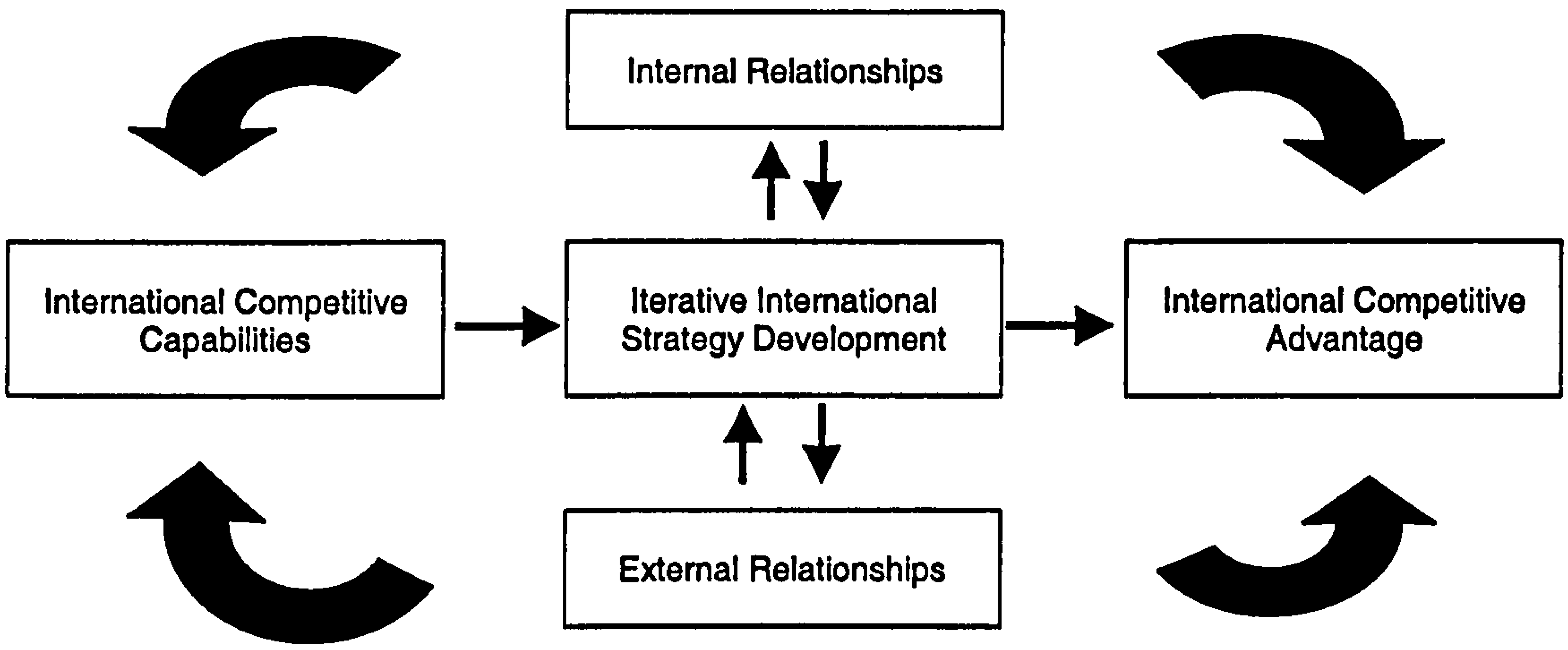
It was through the partnerships formed that the firms added value to their product offering and were able to service fully the needs of customers across their international markets. Firms in the sample viewed their long-term partnerships as extensions of their own firms, trusted friends who, with the same values and standards, were the link between the firm and the international markets in which they competed.

The success of the partners in creating positive relationships was seen to lead to a stability within a partnership, where the relationship operated smoothly and where a climate of trust, co-operation and social bonds had created a stable atmosphere with firms committed to the partnership. Wilson (1995) saw this phase of a relationship as working in the *hybrid space* (p.343) between the firms which, because of the trust and social bonding built, was almost part of the internal environment of the firm.

Thus in developing long-term partnerships, firms were developing an extended flexible *organisation*, almost a *virtual* structure. The firms built a network of partnerships of varying degrees of intensity and used these relationships to enhance their capability to compete in international markets. The firms created added value through those relationships by using them to gain access to both markets and to information, to build barriers to competition as well as to ensure they could effectively service their markets.

As such, the relationships became, in effect, the firms' major communication link to their international markets, both in relaying communications to the market to help build the firms competitive advantage and relaying information back from the market which was input into the decision making processes of the firm. Thus, the process was a circular iterative process, as depicted in Figure 12. The external networks fulfilled vital links to helping the firms sustain a competitive advantage and relayed back market knowledge to key players within the firm.

Figure 12: The Role of Relationships in Sustaining Competitive Success on International Markets



It has been suggested that, it was through the relational paradigm that an understanding of firms that compete successfully on international markets could be achieved (Webster, 1992; Styles & Ambler, 1994). These authors saw the development and management of relationships as critical to the process of the international strategy development and the firms' ability to compete effectively on international markets. However, the author suggests that the relational paradigm only provides a partial explanation, and was not sufficient explanation, in itself, of the nature of firms that compete effectively on international markets.

The relational paradigm, principally, shows how the network of relationships provide the means through which firms efficiently organise their international marketing activities to compete internationally. Thus, it is an explanation of the efficiency of the firms' international marketing operations. It does not explain the international marketing strategy itself but, rather, it explains the structure and organisation of the firms studied in the pursuance of their strategic objectives in international markets and the important role relationships play in that.
Explaining the nature of these firms purely through the relational paradigm, therefore, assumes a view of international marketing as a set of co-ordinated, managed activities which ignores the importance of the positive marketing orientation (as discussed in Chapter 6), from which these co-ordinated activities were developed. As Williamson said:

> "You cannot build an international strategy without them, but the relationships would be no good if you didn't have the strategy. They both have to work together, especially in export. If you don't have good working relationships, then you've got to battle with the people you're dealing with and at the front line as well."

Thompson confirmed this view:

> "They *(relationships)* give you access to your markets and the glue for your global strategy. They're not the final pieces but a key in the jigsaw."

It seemed that firms saw the role of relationships in strategy development as part of the iterative development process. Firms developed a strategic direction, developed relationships, reassessed the strategies and used those relationships to help them develop the knowledge and understanding to make a step change in the development on international markets. Flybait were a firm who saw their strategy as having evolved through their relationships, but this had been in the context of a clear strategic direction.

> "We are a 12 man company (1997) with one MD who's doing everything and anything, so you've got to have a direction and you need to know which ones to concentrate on, you've got to be flexible, yes, and you've got to build relationships. You might telephone if you can't get on a plane all the time but you've still got to do it, and do it as efficiently as you can," (Flybait)

When referring to building closer relationships with customers, Stadium made a similar point, in that the development of any relationship:

> "makes the assumption that you've decided you want that customer, so somewhere along the line you have decided on your customer focus."

This was also true of B F Rail. They viewed relationships as the building blocks of their international development, but within the context of the strategy they were trying to develop.

As Stadium went on to say:

> "You've got your strategy, you've got your product etc., then you're building your relationships and then you're building your systems to hold those relationships in place to a certain extent. And they're the ones that keep you in place if you hit bad times or, you know, things like that."

Thus, relationships both *informed* the international strategy development process and, *added form* to the strategy, but they were not the strategy itself. Relationships were the process by which the strategy was built, organised and implemented; they were considered to be, as Thompson articulated, the glue, pieces of the jigsaw, but not the key to the completed jigsaw itself.

An examination of the relationships formed contributed to the explanation of a firm's success on international markets in an economic and organisational context, for example, added value, integration of buyers and sellers, the structuring of international activities. It did not fully explain either the motivations or the values driving competitive success on international markets or the actual process of learning within firms.

In Chapter 6, it was suggested the firms consistently showed themselves able to overcome the strategic challenges in their international markets, each strategic challenge being viewed as a critical learning experience. It was also concluded that the process of strategy development could be viewed as an iterative learning process. The relationships firms formed could perhaps therefore be seen to be fulfilling the role of *external learning partners* (Piercy & Cravens, 1995, p.24) in that process.

> "Well I think you've got to have a strategy first. And then you've got to be very well organised, very well managed if you like. In other words have the right people, the right relationships and the product and so on. Then the development comes through the learning curve I do believe that." (Williamson)

Thus, whilst the relational paradigm was central to understanding the nature of firms that compete effectively internationally, it only offered a partial explanation. In order, to seek more fully explanations as to the nature of the firms, it was necessary to draw from a further field of literature. In Chapter 8, the literature from organisational learning is drawn upon to seek a full explanation of the underlying processes that sustain a firm's international competitiveness over a period of time.

Chapter 8: How SMEs Learn to Compete Effectively on International Markets

Introduction

In this chapter, the author will synthesise the discussion from the previous chapters and explain the theory development derived from the study. The author proposes that it is necessary to draw from the literature of organisational learning to synthesise the findings of the previous chapters and understand fully, the nature of the firms studied.

Drawing from the literature on organisational learning, the author will suggest that the dynamic process of learning sustains a firms competitiveness over a period of time. Organisational learning was the means through which firms developed effective international strategies, maintained an efficient network of partnerships across their international markets, which enabled them to build a sustainable competitive advantage on international markets over a period of time. The contributory value of this thesis is explained and the implications to the policy debate as to how firms should be supported to compete more effectively internationally will then be explored, as well as the implications for further research.

The Route to the Organisational Learning Paradigm

The aim of this thesis was to make a contribution to knowledge by developing insights into the nature of small and medium sized enterprises that are effective in competing internationally over a sustained time period.

In Chapter 2, the author examined the literature in which explanations as to the success of SMEs on export markets have been traditionally sought. It was argued that a shortcoming of previous research in this field was the tendency to examine SMEs simply within the context of their export orientation, rather than the wider strategic context of international competitiveness. Furthermore, previous research was criticised for failing to take into account the complexity of factors which impacted on a firms performance, being too concerned with the identification of individual variables which determined success and the observation of their regularity, rather than developing a more complete understanding.

In Chapter 4 of this thesis, the reader was introduced to a range of activities in which, firms that competed successfully on international markets were seen to engage. This data was generated from the initial in depth interviews of a sample of 25 firms. It was suggested that many of the firms rationalised their success on international markets in terms of activities which were predominately related to their products and their promotional processes. The author identified three themes emerging from this data, the role of which, it was proposed should be explored longitudinally to generate an understanding of the nature of such firms and so contribute to the theory development in this field.

A contributory value of this thesis was the dynamic nature of the theory development made possible by the data being collected longitudinally. Studying the firms longitudinally was a central component in the research strategy and the means through which the author was able to focus on the change processes and the challenges the firm had to deal with over the time period of the study.

In Chapter 6, the author explored the role of international strategy development in explaining the nature of firms that competed effectively on international markets. In this chapter it was suggested that the firms studied showed a positive marketing orientation which underpinned a strong core purpose from which was generated a clear strategic direction. Furthermore, over a period of time, the firms studied built a sustainable competitive advantage in their international markets and maintained this, even when faced with hostile challenges in their international markets. This chapter went some way to explaining the basis for the firms' effectiveness on international markets and the processes they went through in developing this capability. However, it left a number of questions unresolved. It did not explain how the firms developed the capability to ensure the effectiveness of their international strategies over a period of time, nor, how they organised and structured activities in the international markets in which they operated. Thus, the dynamics of the processes integral to sustaining an international competitive advantage over time remained unresolved.

In Chapter 7, the author drew from the field of relationship marketing to explain how the firms in the study, organised and structured international activities. It was suggested that the network of relationships formed by firms competing in international markets played a critical role in the development of their competitiveness in these markets. The firms sought to use their relationships to build a *virtual* structure through which they acquired knowledge from their markets and communicated to their markets. This allowed partners an important role in both informing a firm of key events and trends in the international markets and in the forming of their international strategies. The partnerships developed also played a critical role in the implementation of the strategies. It was through the partnerships formed that the firms added value to their product offering and were able to service fully the needs of customers across their international markets.

Thus, the firms used their relationships to access knowledge and to implement their strategies, but the relationships were not the strategy itself. Whilst the role of relationships was highly significant in explaining how the firms organised and managed their international activities to maintain a competitive advantage over time, it only offered a partial explanation. Again, the dynamics of the processes integral in sustaining those relationships needed further exploration.

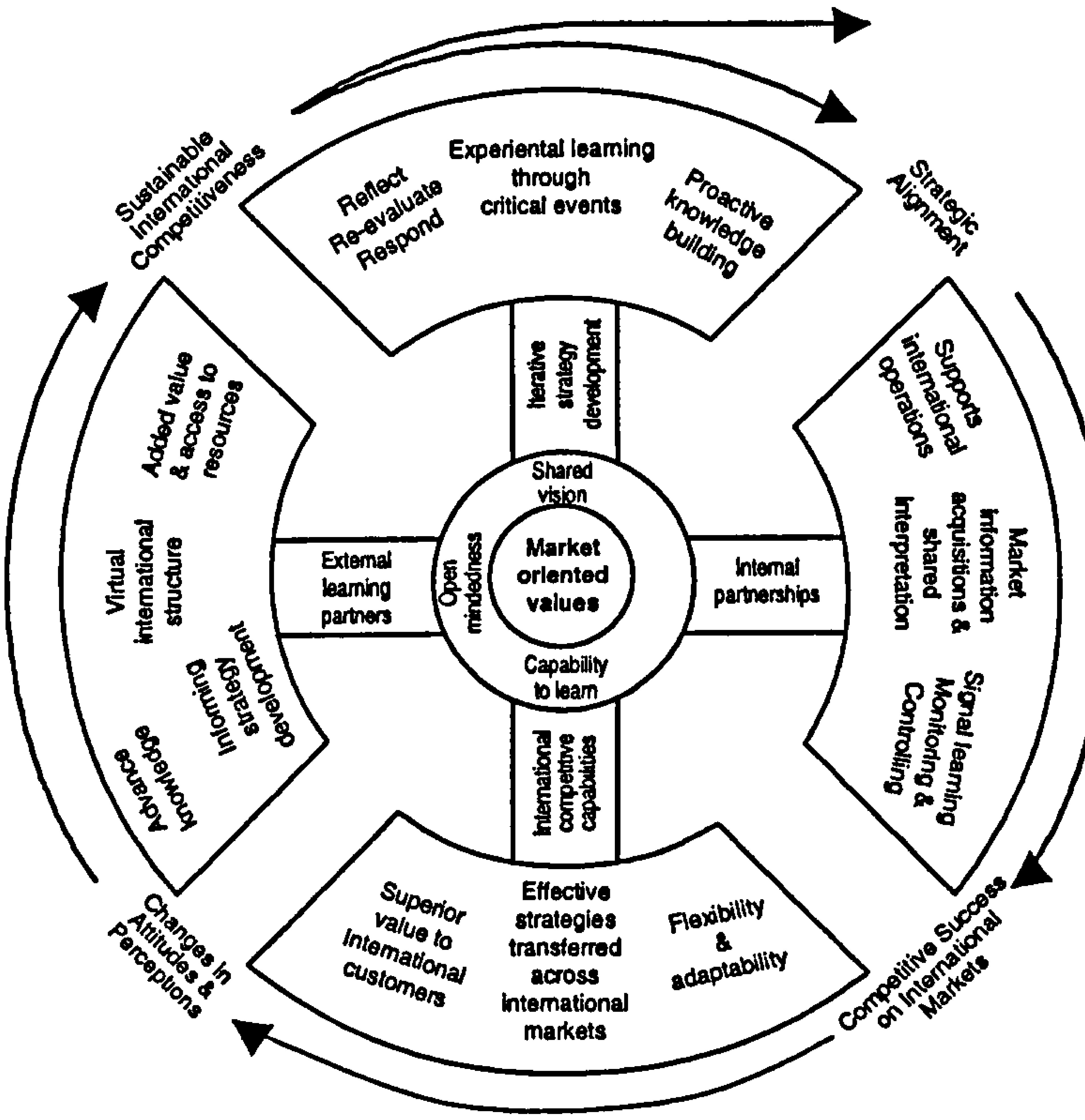
Styles (1998) suggested that three dimensions should be considered, to be of interest, when examining the business performance of SME exporters: effectiveness, relative to competitors; efficiency in relation to the strategic outcomes in international markets; and adaptability. This final dimension was concerned with how the SME responded to changing conditions in the market place. In the previous chapters, it was suggested that the international strategies pursued by the firms were effective. It was also suggested that the firms built efficient operations through the relationships developed in international markets. However, it was the dynamic processes that engendered these capabilities to adapt to the changing needs of international markets that needed to be further explored for a full explanation to be achieved.

The author suggests, therefore, in order to fully explain the nature of SMEs that compete effectively on international markets, it is necessary to draw on the literature of organisational learning. It is through the dynamic process of organisational learning that it is possible to understand fully the nature of the firms in the sample studied, and through which the findings of the previous chapters can be synthesised and explained.

The central proposition of this thesis, is that firms that compete successfully on international markets exhibit a positive marketing orientation, have a strong core purpose on which is generated a clear internationally based strategic direction. Over a period of time, through an iterative strategy development process, these firms build a sustainable competitive advantage in their international markets and develop the ability to maintain this, even when faced with hostile challenges in their international markets. Firms, through their relationships, build a virtual structure to their international markets, which provides the means through which a knowledge of their markets is acquired and, an input is made to the strategy development process by external partners. The partnerships developed also play a critical role in the implementation of the international strategies of the firms. However, it is through the dynamic process of organisational learning that SMEs develop these capabilities and so enhance their ability to sustain a competitive advantage over a period of time.

This proposition can be depicted as shown in Figure 13. In the following sections of this chapter, the key components of this model will be explained by integrating each of the key components, with both the findings of the study and the relevant literature.

Figure 13: How Firms Learn to Compete Effectively on International Markets



Market Orientation and Organisational Learning

It was suggested in Chapter 6, in an international marketing environment that was often dynamic, unstable, and ambiguous that, the firm that emphasised marketing oriented values was able to develop the capabilities necessary to compete effectively in international markets. It was, by having a high level of orientation towards the markets, combined with a clear core purpose, that firms were able to achieve the clarity of thinking with regard to their strategic direction and the subsequent decisions they needed to make with regard to their strategy development. The concept of marketing-orientation, like organisational learning, can be viewed from two different perspectives; the cultural perspective (Narver & Slater, 1991; Slater & Narver, 1996) or the information processing perspective (Jaworski & Kohli, 1996; Day, 1994b; Hunt & Morgan, 1995).

Jaworski & Kohli, (1996) viewed marketing orientation as being the "organisation wide generation of market intelligence pertaining to current and future customer needs, dissemination of intelligence across departments, and organisation wide responsiveness to it."

Jaworski & Kohli, therefore, focussed on the activities and behaviours that underpinned the generation and dissemination of market intelligence. They also maintained that marketing orientation appeared to be facilitated by the amount of emphasis top managers placed on it, through continual reminders to employees that it was critical for them to be sensitive to market developments. Hunt & Morgan (1995) likewise, took an information-systems view of marketing orientation which was further developed by Morgan, Katsikeas & Appiah-Adu (1998) who seemed to view marketing orientation purely as the mechanism for the information processing activities of the firm. This is, perhaps, why they proposed that only larger firms had the learning capability to be truly marketing oriented and only included firms with more than 200 employees in their study.

Marketing orientation was viewed by these authors, as an outcome of the learning capabilities of the firm. This was similar to the view of Day (1994b) who defined marketing orientation as "complex bundles of skills and collective learning exercised through organisational processes, that ensure superior co-ordination of functional activities" (p.38).

Like Morgan, Katsikeas & Appiah-Adu (1998), Day, argued that market orientation was an outcome of learning and proposed that organisations became more market oriented "by identifying and building the special capabilities that set market-driven organisations apart " (Day, p.39).

Slater & Narver (1996), on the other hand, took a cultural perspective in defining market orientation, and suggested a different view. They articulated marketing orientation as "The organisational culture that most effectively and efficiently creates the necessary behaviour to the creation of superior value for buyers and thus continuous superior performance for the business" (p.21).

The scope of market orientation, therefore, went beyond customers and incorporated competitors. It involved the understanding of customer needs in a manner that allowed superior value to be provided; and the integrating of the effort of the organisation's resources towards creating superior value for customers. Thus, these authors viewed marketing oriented values as both the loci of organisation learning and the outcome, in that, in achieving, *superior value for buyers,* marketing oriented learning had to take place.

In linking marketing orientation to organisational learning, there is, therefore, a differing perspective amongst authors. Some scholars viewed organisational learning as a cognitive enterprise that unfolded over time and emphasised concrete market information-processing systems. For instance, information generation and dissemination, as the mechanism through which learning should take place (Jaworski & Kohli, 1996; Morgan, Katsikeas & Appiah-Adu, 1998). Others stressed the need for shared mental models, shared organisational visions, and open-minded approaches to problem-solving (Senge, 1990, 1992; Sinkula et al, 1997; Slater & Narver, 1996). The former linked organisational learning to knowledge acquisition; the latter linked organisational learning to value acquisition. Pelham & Wilson (1996) observed that in small firms, because they were characterised by lack of formal co-ordinating systems, the values of the firms substituted for the systems found in larger firms by providing the focus and discipline to the various small-firm functions in the implementation of its marketing orientation.

Sinkula et al (1997), building on the work of Senge (1990, 1992), undertook a study of the learning processes of 125 organisations in the USA. In this, they identified three organisational values viewed as being associated with the predisposition of a firm to learn: the commitment to learning, open-mindedness, and a shared vision.

Commitment to Learning

Central to a firm's ability to achieve a positive marketing orientation was the commitment of the firm towards learning. It was this that determined the value placed on the outcomes of learning. The findings of this study, confirmed the view of Pedler et al (1991), who maintained, that learning-efficient companies were reflective and valued the need to understand the causes and effects of their actions. The firms, in this study, it is suggested, showed a strong commitment to the learning process, not only for the acquisition of knowledge to input into strategy development, but as a vehicle for communicating with their customers.

> "That's where it all comes from. Market knowledge is - you cannot achieve anything if you do not have knowledge inside the markets, that's number one. You know, we're willing to listen to the customers wherever they are." (Flybait)

> "We do a lot of research that's why we are very successful in foreign markets because we tend to think that if you don't know the market you can't make a proper effort to get into the market." (Stadium)

Thompson saw the commitment to learning as fundamental to achieving a competitive advantage:

> "You've got to know your customers. It's the first step. If you cannot communicate you can't learn. If you can't speak Mandarin when you're negotiating with the Chinese, there's no way you can learn anything about them......If you speak the same language, you will get the right information and that is the most important thing and this is where we tend to beat our competitors. We're one step ahead."

Thus, one of the reasons the firm placed such high priority on employing linguists was the high priority the firm gave to ensuring they had the capability to communicate effectively with their customers, and to learn from them:

> "We have a very selective type of recruitment. I only employ linguists. We have four foreign nationals who each have three or four languages, and I mean fluency. Absolute fluency, I don't want anything less than that. We cover seven languages between us."

Open Mindedness

Sinkula et al (1997) suggested that, when organisations proactively questioned long-held routines, assumptions and beliefs, they were engaging in the first phase of learning, which was at the heart of organisational change. An illustration of this was Fox, whose Managing Director reflected on the experience with the distributor in Spain, as described in Chapter 7 and re-evaluated his view on the resources needed for international development and the need for linguistic abilities.

In 1996, in the first interview, Fox did not see the need for language skills:

> "We are dealing with a very technical product and dealing with, on the whole, individuals who are highly trained, qualified, technical degree status and our European friends speak very good English and it has never been a serious problem."

Within a year, however, his attitude had changed. This was, in no small part, due to his learning, from the experience of the firm with the Spanish distributor, that he needed to build a much sounder knowledge base, and much closer links to the markets, than the firm had done previously. Integral to achieving this capability was the appointment in 1997 of a European Sales Manager, fluent in three languages:

> "I do admit I dismissed it (*the need for a foreign language capability*), but it's proving to be quite an advantage, our maintenance instructions and new product literature are now in the seven major European languages. Neil was in France last week doing a two-hour presentation to our French distributors and it made a big, big difference. It went very well and, I think, was well received by the French people."

For a small firm, this constituted a critical step up in the resources allocated to support international development. It also showed an open-mindedness, a flexible attitude and a willingness to learn, as well as a willingness to invest in the resources required in the outcomes of that learning.

Thus, in some ways open-mindedness was about recognising limitations. This was evident in the case of B F Rail, when explaining the close relationships he had built with his local Business Link, particularly in the early stages of his international development:

> "I was never a business man, I was in manufacturing."

Thus, signalling he was willing to learn and recognised the need to access external learning partners in that process.

Shared Vision

The importance of a clear strategic direction that was shared amongst the members of the firm was discussed in Chapter 6. The concept of a shared-vision has been viewed, in the literature as being the foundation for proactive learning. It provided direction, a focus for learning that fostered energy, commitment and purpose among organisational members (Day, 1994b). Slater & Narver (1995) viewed the motivating vision as being "grounded in a sound understanding of the market, guides the business' competitive advantage efforts and is communicated continuously throughout the organisation" (p.70). Collins & Porras (1998), as was seen in Chapter

6, used the term *Core purpose*, Hamel & Prahalad (1994) preferred the term *foresight* which, they considered was "based on deep insights into the trends in technology, demographics, regulations and lifestyles that can be harnessed to rewrite industry rules and create new competitive space" (p.73).

The importance of a clear foresight, (or core purpose, or motivating vision) shared by the staff and management of the firm, was reflected in the firms studied, who considered this as a fundamental basis for their international strategy development. The foresight was seen to give the firms the strategic direction to build a superior competitive position in international markets which moved beyond the short-term view of the firms' current markets and so an outcome of the marketing oriented values of the firm.

Such a view was articulated by Thompson, who saw such foresight as fundamental to the international development of the firm:

> "It was that fairly deep insight into ... not necessarily revolutionary, but a new way of competing, so in that sense that was the innovation and he never faltered, never went away from that, and he was convinced that it would work and he was proved absolutely right. It was a solid, good innovation on which he took Thompson from being an exporter to having a business world-wide."

To generate such a foresight required, not only marketing intelligence, but an analysis of how the market will be affected by such factors as government regulation, technology, competitors and other environmental forces and so required a knowledge acquisition strategy for the external environment. Likewise the clear strategic direction given, was evidence to employees, from senior management of the commitment to international development. It therefore gave focus to the efforts to build the knowledge capability within the firm.

Senge (1990) considered that the creation of a conducive learning environment could not be achieved without commitment from the top. Slater & Narver (1995) suggested the leader needed to communicate a well-crafted vision for the organisation and personally motivate and instil a learning orientation in those around. It was suggested by Pelham & Wilson (1996), that the close contact between management and staff in a smaller firm meant that the senior managers/owners were well placed to achieve this capability. Such a belief was held in Flybait:

> "Things may look bad for our export markets and all the rest of it, but we are still going to plough money into promoting our products overseas, and looking for new overseas customers, and it's basically passing that enthusiasm throughout the organisation. That, yes, things might not look good for us to be growing our international business, but we're still going to commit to it."

In the firms studied, the shared vision was, as discussed in Chapter 7, in the view of the senior managers, developed within the firms through the internal partnerships they endeavoured to build. According the views expressed, there was shared vision of the direction the international strategy should take, an open-mindedness and a willingness to learn. It is suggested that these values underpinned the positive marketing orientation from which the firms developed the learning capability to be responsive to the changing demands of the international markets and so effectively compete on those markets.

Organisational Learning and Building the Capability to Compete on International Markets

In Chapter 6, it was suggested that the firms studied, competed by building superior value in markets through either clearly differentiating their products from competitors, or by focussing on one particular market segment and competing by adding value to the product through customer support.

There are two principal views as to how competitive advantage is achieved, the *resource based* view and the *competitive forces view.* Porter (1980, 1985) was a proponent of the competitive forces view. He argued that the success of a company's competitive strategy depended on the positioning of the organisation within its environment, particularly its industry, so that it could defend itself against competitive forces, or influence them in its favour. The *resource based* view argued that a firm performed well because it developed a *distinctive competence,* which allowed it to outperform its competitors. The emphasis was more on the capabilities of the firm to succeed in what it chose to do, rather than on the environment in which the firm operated (Hamel & Prahalad, 1991; Wernerfelt, 1984).

The competitive forces approach (Porter, 1980, 1985), placed emphasis on the intensity of competition (differentiation) and the identification of market segments that attracted profit potential (market focus). The capabilities approach, by contrast, located the source of a defensible competitive position in the distinctive, hard-to-duplicate, resources the firm had developed (Hamel & Prahalad, 1991).

However, for a firm to maintain a defensible competitive position over a period of time in an ever changing international marketing environment, there must be a dynamic process, within the firm, through which it decided how best to maintain its competitive advantage. Thus, whilst both these approaches gave insights as to how firms competed on international markets, they only partially explained, sustained success.

With regard to the Porter view of competitive strategy, a firm would need to develop competent skills in scanning international markets to understand the industry forces driving market change, and from that, develop the ability to gradually build an emerging strategy in response to the knowledge acquired. This may have involved reshaping the firm in order to build the capability to implement its strategy over a period of time.

Hamel & Prahalad (1991) argued that a firm, over a period of time, would need to develop core competencies, both technical and managerial to maintain competitive advantage in the marketplace. Hamel & Prahalad viewed the core competencies as being "the collective learning of the organisation" (p.82).

They viewed technical competencies as necessary to maintain a competitive position in terms of the product offering, and managerial competencies as necessary to help the firm change and reshape itself over a period of time. Thus, learning was the basis for achieving competitive success over a period of time. Sinkula et al (1997) proposed that learning at a slower rate than the pace of change in a market was indicative of learning deficiencies that were likely to lead to an eroding position in the market. This was consistent with the view of DeGeus (1999, 1988) and Dickson (1992), who considered the ability to learn faster than competitors, as possibly, the only source of sustainable competitive advantage.

In maintaining their competitive position in international markets, Stadium, B F Rail and Thompson achieved a sustainable competitive advantage by adding value to the initial product offering. Through the relationships the firms developed, they extended their product concept to include such things as guaranteed delivery schedules, flexible ordering services, easy payment terms, in effect, using other parties in the supply chain to help them build their competitive advantage. Their core competence, therefore, was oriented towards the servicing of the international customer and extended beyond the core product itself.

This had not always been so. What is particularly interesting in the firms studied is that at some stage in their international development the firms had undergone a process of re-orientating their strategic direction to compete more effectively in their international markets. It is the capability shown by the firms to undergo such a process that distinguishes such firms. Table 8.1 gives examples of the refocusing in the strategic thinking of the firms studied.

Williamson, Fox and Flybait, considered their initial competitive advantage in international markets as being achieved through product differentiation. In re-orientating their direction, each of the firms refocused their thinking to developing a competitive advantage based on the added value gained through investment in research and development. They built the resource capability to respond rapidly to the technical demands of the market. In this way they extended the basis on which they competed, built a core competence difficult for competitors to emulate without major investments and were able to respond to the new opportunities in international markets. Neither Fox nor Williamson departed from the original core purpose on which they built their initial success, but re-orientated the positioning strategy in international markets.

Flybait, on the other hand, responded to the challenge of cheaper imitations, in their international markets, by trying to develop the supply chain as a base for competing internationally. Through the development of close partnerships with other members of the chain between themselves and the final customer they built barriers to competitors purely competing on price.

Likewise, the refocusing of the strategies of Thompson, B F Rail and Stadium served to reinforce the importance of both adding value and competing on that value chain. For example, Stadium built an interactive web based design facility to enable customers in international markets to make inputs into the design process of the forging, being made, thus building closer relationships as well as adding value on which they could compete.

Table 8.1: Examples of Refocused Strategic Thinking

	Refocussed from:	To:
B F Rail	Serving *"the mining market"* to *"anywhere there is a tunnel"*	In 1999 *"to where there is light railway development"* opening up new marketing opportunities in infrastructure projects.
Flybait	Having an international presence in the fly fishing market	Serving the "outdoor recreation market" opening up new opportunities world-wide.
Fox	Producing lamps for the mining market	Building a profile in the market for safety lamps for industrial hazardous areas.
Stadium	Producing high quality precision forging for the cutlery industry	Bespoke specialist design forgings in the aerospace and medical implant markets.
Thompson	A steel stockholder	Added value supplier of steel products to the oil industry
Williamson	Differentiated, country-based international strategy supplying knives	A customer-focussed Pan-European strategy in *knife edge technology* market

However, in developing the capability to reorient their competitive positions in international markets, the questions must be asked - How did the firms identify their core competence, and how did they decide that this was the direction to be followed? It seems, on the one hand, the firms had developed a resolve to pursue a particular direction, and, on the other hand, had developed the instinct to know when that position should be defended and when it should be challenged and a new direction sought.

It is suggested that a strong organisational learning capability was evident in the cases of B F Rail, Stadium, Fox and Thompson in their ability to re-orientate from, essentially, a product focus to a marketing orientation. This proved to be critical to their international development. It was the point at which the decision was made as to the focus of their international strategy, and so set the tangent for the direction of their international market development. In the above cases, the re focussing of their strategies was in response to the decline of their traditional markets, mining, cutlery and engineering respectively. Flybait and Williamson showed similar capabilities in their responses to the competitive challenges posed in their international markets, by competitors imitating the competitive advantages they had developed.

In examining the sustainability of competitive advantage, Williams (1992) reflected that as all industries underwent substantial change, whether driven by customers, competitors or technology suppliers. There was a continuous pressure on businesses to reshape themselves as well as to augment their products and services to maintain or increase their value to customers. Narver & Slater (1990) suggested that firms were only able to sustain their competitiveness by being marketing oriented. They argued that it was by understanding customer needs in a manner that allowed superior value to be provided and by being aware of both existing and potential competitor activities that firms were in a position to take appropriate actions to respond to identified opportunities and threats. It was the firms that developed the learning capability to achieve this that were able to re shape themselves and so sustain their competitiveness on international markets.

Morgan, Katsikeas, & Appiah-Adu (1998), argued that organisational-learning capabilities helped firms sustain a competitive advantage over the long term in two ways. Firstly, by minimising the incidence and potential impact of serious environmental disturbances, through advance acquisition of knowledge. Secondly, by the flexibility, built through organisational learning, to enable the firm to develop rapid company responses in order to exploit emerging opportunities or extinguish threats. Whilst Morgan et al were referring exclusively to large firms, the same principles can be applied to SME's, in that it was due to the learning capabilities built by the firms studied, they were able to develop appropriate responses to the strategic challenges faced in their international markets and so refocus their strategic thinking in the manner identified in Table 8.1. Further insights into how this was achieved can be gained by exploring the case of Williamson and looking at how they dealt with the impact on their markets of the ever-closer integration within the European Union.

An assessment of the firm's international portfolio in 1997/8 led Williamson to conclude that a result of their continual international expansion over the past decade, together with their policy of adapting products to meet the need of particular markets, had resulted in a proliferation of a large number of product lines and an assortment of different brand names across the European region. As Europe moved closer towards economic integration, Williamson found that retailers were increasingly buying on a European-wide basis, and the diversity of brand names and product lines meant it was becoming increasingly difficult to sustain a cohesive marketing strategy. They decided they could no longer defend their competitive position in these markets on their existing strategy, and had to refocus their thinking. Traditionally Williamson had segmented the European market on a country by country basis. In 1998 they started working towards reorienting their international strategy to develop a more integrated approach with a more cohesive and unified brand image:

> "As Europe becomes more and more integrated then whatever is happening in one market is vitally important to what is happening in another market. You can't consider, for example, Belgium as existing on an island and having nothing to do with what's happening, say in Sweden. You have got to make sure that you're making a similar offering in your policies, they have got to be relevant to the country involved but you do need to be aware of what is happening in other markets."

The first building block of the change in orientation was to move to a customer-based segmentation approach across Europe. Williamson, through this process, identified four clusters across their European markets. At the same time, they undertook a rationalisation exercise in the number of brands and product lines offered. The result in 1999 meant that for each market cluster identified, Williamson competed on three price points for each product line:

> "Broadly speaking we look for a good, better and best offering in whatever market in which we're operating. In the Iberian cluster, for example, there is a good, better and best offering appropriate to the needs of the market where the best offering is on par with the good offering in Northern Scandinavia."

The stimulus for the learning came from critical changes taking place in international markets. Williamson, however, had built a knowledgeable understanding of those events and assessed the implications of market changes rather than simply accepting them. They had then reoriented their strategic thinking in the light of those changes and developed a potential solution. The strategic challenge faced constituted a critical learning experience for Williamson. Other firms in reacting to strategic challenges likewise, it is suggested, showed a willingness to learn, reflect and proactively respond to such challenges. B F Rail in 1998, and the buy out from the Chairman, and Stadium and Thompson in the challenges they faced in South East Asia, as described in Chapter 6. In the view of the author, each of these events were critical learning experiences for the firms. Their ability to learn was fundamental to the firms overcoming the hurdles and moving on to the next phase of international development.

Organisational Learning and the Emergent Strategy Development Process

The ability to overcome the barriers faced and the learning capability the firms developed, in finding solutions to deal with the ambiguities and challenges they encountered on international markets was an important part of the strategy development process itself. Whittington (1993) referred to this type of learning approach to strategy development as a *processional approach* (p.22). Such firms followed a *logical incrementalist* approach, which was committed to the process of experimentation and learning. As described in Chapter 6, the firms studied, considered themselves proactive in the building of knowledge of the market place to ensure they were better able to defend their competitive positions in international markets. The development of their international marketing strategy, was a process of reflection and examination, developed and clarified over a period of time, in the tradition of the Mintzberg (1987) *adaptive mode* and the Hall (1992) *transactive approach* of strategy development.

Such a view of strategy development, Whittington argued, was often seen as unglamorous, simply because it was characterised by small steps and few, *bold lunges into the unknown long-term* (p.23). Thus, the strategy development process itself was an iterative learning process from which the resultant strategy gradually emerged. A firm's long term strategy in international markets was built incrementally as they underwent the process of reflecting on their experiences and responding to the challenges faced. The focus of the strategy often then, being proactive in developing the knowledge base and building the resources to react and respond to the learning derived from the knowledge gained. In the strategy development process of the firms followed longitudinally, two types of learning activity, can be observed, the learning necessary to *signal* critical developments and trends, and the learning necessary to *reflect, re-evaluate and respond.* That there are different types of learning has been well recognised in literature. Various labels have been used to denote different types of learning activities, such as, adaptive and generative learning (Senge, 1990), single loop and double loop (Argyris & Schon, 1978) and lower and higher learning (Fiol & Lyles, 1985). This author suggests the terms signal learning and 3R learning, more adequately reflect the type of learning observed and so are proposed here in explaining the types of learning activities observed in the firms studied.

Signal Learning: Is viewed by the author as being concerned with monitoring and maintaining a position in international markets. It is suggested that it was the ability to undertake such learning activities that the firms studied were able to generate a knowledge that *signalled* the likely challenges and ambiguities in international markets and so ensured the firms were able to adapt and ensure the appropriateness of the strategies they developed. This type of learning was concerned with the traditional activities of the international operations of the firm.

The 3R learning, (reflect, re-evaluate and respond) occurred in response to critical events occurring in their international markets. It was this type of learning that the firms studied underwent in reflecting on the demise of traditional markets. They had to question long-held assumptions about themselves, their customer base and their strategic focus. It required the development of a new way of looking at the world. Thus, it was not merely about adaptation, but challenging traditional assumptions, reflecting, evaluating the new learning and responding with newly developed strategic thinking.

Both types of learning activity were necessary to the incremental strategy development process.

Signal Learning

Signal learning was essentially the monitoring and evaluation carried out by the firms in their international markets. It was a central component to the firms' ability to control the delivery of their international strategies. The prime function was to establish the control mechanisms to ensure objectives were achieved and so any deviations or potential problems were signalled, enabling advance knowledge to be built. As was discussed in Chapter 7, an essential outcome of these processes was to support the agreements made with international partners and ensure the partnerships established worked efficiently.

For example, Thompson offered flexible payment terms to all its international customers, but once agreed, those terms had to be met:

> "I give people the payment terms that they want. I don't mind. But I say to them if they are going to be a week late, its their problem not mine, I didn't impose it on them. So they pay. I've got one girl who really is spot on, she is our control."

Stadium promised to reply to any enquiry, received from anywhere in the world, within 48 hours. This required an information system that enabled the efficient preparation of quotations. This entailed the firm investing in new systems in order to fulfil their promise to the market.

> "Our costing system was a bit antiquated, you know, it took hours – it was the old big desk and lampshade job. So we put in a new computerised one, now we can get these quotations turned round within 48 hours."

Flybait built a competitive advantage by building close supplier relationships. They had to proactively control the efficiency of those partners who serviced customers in international markets on their behalf:

> "the door is always open for new suppliers to come in. The world of shipping is a very competitive world. You will always come across somebody who has promised to deliver it faster than his competitor. We have a very specific customised business. One day you will have two pieces to Norway. The week after that you will have twenty, but they will be all different. You've got to be able to handle this sort of business. It's not straightforward. We constantly review their performance."

It was as through their monitoring and control procedures that Flybait felt able to claim they achieved a performance rate of 94 per cent in delivering products in the target time set. As the staff themselves built a deeper knowledge, the problem solving abilities of the firms improved. This in the view of Vorhies, Harker & Rao (1999) enhanced the marketing capabilities of the firm and enabled the firm to further add value in the market place.

As Nonaka & Takeuchi (1995) observed "inventing new knowledge is not a specialised activity ... it is a way of behaving, indeed a way of being, in which everyone is a knowledge worker" (p.35).

The reorientation by Stadium of the production planning department to a customer support service is an example of a strategic outcome signalled through the learning activities of the firm. The firm responded by re-organising itself to be able to add value to the customer, and so enhance the competitiveness of the firm.

Central to this process of course, were the internal partnerships that were discussed in Chapter 7. These were viewed by the firms studied, as, critical to building the capability to support and maintain external relationships over a period of time. It was through such learning that the *equitable balance,* in the relationships the firms developed with external partners, was nurtured and, a trusting relationship was built over the longer term.

However, it would be wrong to give the impression that this type of learning activity was something that came easily to the firms, or something in which, they had, always had a high capability. The firms saw the process of developing the mechanisms necessary for signal learning itself as a learning process and one which they reflected upon and constantly improved. The point, as always, was eloquently made by Stadium:

> "I think in the past we had a sort of "Ah! So what?" It'd be all right this job if it wasn't for the customer's attitude, but now it's, you know, just what did happen? Where did it go wrong? What have we done wrong? Why has this happened? And things like that. I mean we don't have ceremonial hangings or beheadings and things like that, but if we find in a certain area that it's happening too often, then there's some serious wrist slapping goes on. But it's got to be! It's got to be!"

Thus, just as the international strategy development of the SMEs was seen to be an iterative process, so was the building of the mechanisms needed to ensure an effective capability in signal learning. A distinguishing characteristic of the firm's studied therefore was the willingness to commit to an ongoing process of improvement and development.

Williamson and Stadium, between 1996 and 1999 made investments to improve their monitoring and control procedures and all the firms saw this as an ongoing development. Following the purchase of the B F Rail in 1998, one of the first measures the Managing Director took as new owner was to:

> "professionalise the way we do things" which entailed, "changes and developments being made in their management information & control systems."

Flybait articulated the sentiments of a number of the firms when they said:

> "Effective monitoring and control procedures are important to us but we've not quite got some of the controls in that we need....we're working on it."

Riesenberger (1998) identified two types of organisational knowledge to be gained through the learning process, *explicit and tacit knowledge. Explicit knowledge* was seen as knowledge that could be displayed as numbers and words that could be shared easily. This type of knowledge was developed through signal learning processes. It was through this type of learning that the firms built explicit information against which they could monitor performance and ensure that international strategies were implemented and controlled.

Williamson, whose products went through several supply chain stages before reaching the final consumer in an international market, considered it important that the margins at each stage were effectively controlled and monitored:

> "I think that's the important thing is controlling the margins, but the other thing is you do need to control where the sell out of your product is, we're selling to a distributor in a foreign country who then sells to a retailer, who then sells to the consumer, so you can sit here and look on the lap top, 'Oh wonderful, we've sent £100,000 there, but we've got to know which level it is, whether it's still in the distributor's warehouse, or in the store."

The efforts by firms to monitor performance in the market, and their performance relative to competitors, was an importance aspect of signal learning. For Fox it was a matter of costs:

"The last thing we want is inflated costs, which will make us uncompetitive."

For Thompson:

> "the main thing is to never go against the trend. In other words right now (1999) we know there is a diminishing market, so we've got to make sure that our share, is not lower than the trend if you like. If the demand out there has gone down 30%, we don't want our sales to be going down 50%. We want to be within the 30%."

Thus, firms had a clear sense of the key indicators needed to gain the understanding to improve and adjust strategies within the traditional scope of the firm's activities.

Tacit knowledge was slightly more ambiguous than the explicit knowledge gained through signal learning. It could be described as unarticulated knowledge, hard to formalise and difficult to express. Tacit knowledge was developed by an individual's and organisation's insights, beliefs, values and perspectives developed over time and therefore was more akin to the type of knowledge developed through *3R learning*.

3R Learning

Argyris & Schon (1996) suggested that all firms experienced intensive phases of learning that opened windows of opportunity to achieve a differentiated competitive advantage. However, that competitive advantage would only be maintained through learning, an outcome of which, in the context of this study, would be sustained competitive success on international markets. Without this, eventually, the window of opportunity would close as knowledge was gained by the competitors. Such learning could be seen in the process firms undertook in developing the international marketing strategies to achieve competitive success. This was richly articulated by Williamson when they referred to the process of strategy development as a never ending process and gave the analogy of the underground train, building an international portfolio section by section, constantly using the knowledge gained from one section to inform the construction of the next.

Thus, each new international market entered, or each new international contract gained, was not a completely new learning experience every time:

> "It's taking one section into there - but you've got to have the flexibility to be able to adapt it. You take what you've got from the first one, it's a springboard, and then you develop it. But then it's this backwards and forwards process because you could learn something from here which you could then go back and use in the one you've just come from."

As discussed in Chapter 6, there was little evidence that the firms undertook formal planning procedures. Indeed, it could be argued such an approach would make little sense in a dynamic international environment. So the strategy development process was an iterative and participative process where the firm acquired a knowledge commitment from key stakeholders in the development of their international strategies. The whole process was, in effect, a learning process

This sentiment was echoed by a number of respondents:

> "International development is a learning process and you must never assume that you know everything about a particular country or about a particular customer. Things have got a habit of changing." (Stadium)

> "It's a reflective process. Business is about people and it's about communication and it's about attitude and you've got to have the right attitude. You've got to be focused with the right motive and the right attitude and along the way you've got to learn. That's what it's all about." (Thompson)

> "It's not a straight line. It's working - coming back - learning and then you're thinking right, we'll go here." (Fox)

This was consistent with the view of Von Krogh & Roos (1995) who, explored how globalising firms acquired knowledge. They proposed a cognitivist view of the way firms developed their knowledge base to expand globally. As the firms confronted new situations, they argued, experiences were gained through thinking, sensing and reflecting. Knowledge was formed through the actions, perceptions and senses. The firms used past experiences to orient themselves in new situations; thus previous experience affected the new experiences gained.

Critical to this learning process was the ability to acquire knowledge, reflect and then generalise those experiences in new international markets. 3R learning, it is suggested, is the type of learning required by the firm to help them move forward in international markets. Day, (1994a, b); Sinkula, (1994) suggested firms with a capability of learning could reduce the frequency and magnitude of major shocks in their environment.

The capability enabled the firm to develop *advance knowledge* of key events in international markets and build the *flexibility* to quickly reconfigure operations and reallocate resources to focus on an emergent opportunity or threat identified in its international markets and so achieve a *rapid response* to it. Critical to the learning capability was the ability to acquire knowledge, *reflect* and share that reflection within the firm itself, *re-evaluate their strategic thinking* and then *respond* by *transferring* that knowledge to new situations and challenges in other international markets. It was, therefore, through the organisational learning processes that knowledge was acquired and the capability built within the firm to respond to the strategic challenges faced. In Chapter 7 the use made by firms of their network of relationships to acquire knowledge and generate exclusive information was explored. This is further explored in the next section.

The Network of Relationships and the Acquisition of Knowledge

Because organisations are cognitive enterprises, understanding how they acquired knowledge was critical to understanding how they learnt and progressed. Market information processing is a necessary condition for the acquisition of knowledge, organisational learning, essentially, was the process by which information was transformed into knowledge and understanding (Day, 1994b; Huber, 1991; Sinkula, 1994).

Garvin (1993) proposed that learning organisations were skilled at five main activities, systematic problem solving, experimenting with new approaches, learning from their own experience and past history, learning from the experience of others and the best practices of others and transferring knowledge quickly and efficiently throughout the organisation. This essentially built on the work of Huber (1991). Huber portrayed knowledge acquisition as consisting of five constructs: congenital learning; experiential learning; vicarious learning; grafting and searching.

Congenital learning; was the combination of knowledge inherited by the firm and the additional knowledge acquired from previous experience. The learning that senior managers brought to a firm would determine what the firm searched for, and how it interpreted what it encountered. In the context of this thesis, it was, therefore, both an antecedent and an outcome of the values of the senior managers/owners interviewed, as discussed in Chapter 7. The Export Sales Director of Thompson a linguist by training, brought into the firm a commitment to learning which was operationalised by building the capability within the firm to communicate effectively with customers, whatever their language. The commitment of the Managing Director of B F Rail to building an international customer base was borne from his experience of witnessing the demise of traditional UK markets in coal mining in the 1980s. Congenital learning, would therefore be derived, not only from the experience of the firms, but the prior experiences of the top management and important in articulating the core values of the firm itself.

Experiential learning, could be unintentional and unsystematic. In the sample of firms studied, the strategic challenges faced by the firms constituted critical learning experiences. These were individual critical events where solutions had to be sought to specific problems. Altman et al (1998) and Mabey & Salaman (1995) in their studies, of adult learners, suggested adults typically learnt in episodic, intensive problem-oriented ways rather than from general overall principles. This seemed to be the case in the firms studied. Firms learnt from their experiences in actively solving problems rather than in more formal or structured ways. The importance of learning from ones own experience was also seen in the strategy development processes of the firms studied and articulated by Flybait in their description of how they acquired knowledge on their international markets.

> "To a certain extent it's from existing markets and existing things that are in place. From testing things out in the market, we go into a market, test the water, learn from that, and then make further decisions as to how to tackle that market, so I suppose. we're doing it more on a sort of trial-and-error basis."

However, this process was not carried out in isolation. Dialogue with partners was an important element of the learning process and the experiential learning process was part of the relationship development process itself.

Fox, for instance, considered the learning process as part of the ongoing dialogue with the distributors and partnerships they had established in their international markets.

> "Learning is a dialogue, you test the waters then develop things and it would be a question of continuing the dialogue with the distributor to get his idea of the potential, the competition he'll encounter and any problems he might come across in terms of specification or use, or cost for that matter."

Thus, the partners in the international markets became the moderating influence on the firm as they experimented and tested things out in international markets. It was through the dialogue with partners in the market that experimental ideas were either rejected or validated.

Vicarious learning is the acquisition of knowledge through acquiring second hand experience. This was considered an important source of knowledge by the firms studied in developing new international markets where they had no previous experience. Lateral partnerships, especially, were a source of vicarious learning, particularly suppliers and businesses in different industries operating in the same international markets. An example of vicarious learning through lateral partnerships was the process Williamson went through in researching the market for Austria:

> "We were doing sporadic business, just being contacted by companies who had heard of us. We decided we would break into the Austrian market. I spoke to our distributor in Switzerland to identify who was the most successful company in Austria in products related to ours. So, he then put us into contact with that company who then gave us information on their distributors. I then went to Austria to do some market research on my own, met up with these distributors, talked to them and learnt from their experience. Then I visited various stores with those distributors on a informal level, looking round and researched into other distributors and what other products they were doing, what sort of reputation they had in the market and made a decision that we would hone into Austria and we would use this particular distributor and it is working well."

Thus, Williamson gained access to lateral partnerships with the explicit intention of maximising their own limited resources, by mobilising the knowledge of the other firms in a situation that was non-threatening to the partner identified.

Grafting. Firms acquired knowledge by grafting knowledge from the relationships they established in their international markets. This type of learning was particularly relevant to the firms who had close contact with supply chain partners such as Flybait, Williamson and Fox. Information generation in the firms studied was often a result of interplay between the firm and the partners it had established. The extent of knowledge acquisition through the process of grafting was determined by the closeness of the working practices of the two partners and the level of trust between the two partners, as articulated by Williamson:

> "We use our networks all the time. All of us who are dealing in the export market need constant data and we need it up-to date. Its not just about sharing data, you're sharing experiences and learning about what will go in the market. I think that's very important in export because it takes a long time to build up these distributor relationships."

Lukas, Hult & Ferrell (1996) interpreted such learning as collectively developing a knowledge base. Thus, to learn effectively, the partners needed to have reached agreement that joint learning could take place, have a consensus of views as to what constituted acceptable territory for learning and hold similar views as to how the issues being studied affected the individual partners. This is very much what happened in the case of Flybait in the supply chain partnerships established. The parameters were clearly set and the areas for co-operation and information sharing well defined.

Searching. This involved both internally and externally focussed scanning. Searching was the basis for the knowledge acquisition for signal learning. In externally scanning for opportunities and threats, and internally assessing how well the firms were meeting both their own standards and the expectations of the external stakeholders, firms signalled the possibility of critical events. The main vehicle for the acquisition of knowledge in scanning international markets was viewed as being the network of partners within international markets established by the firms studied.

The role of external relationships was significant in experiential, grafting and vicarious learning. It was equally important in externally-focussed searching of the international market environment. It was through the relationships formed in the international markets that the firms studied were able to build a knowledge base of those markets. The relationships developed were considered an important source of learning by the firms studied. Firms placed a great value of trust on the type of information generated through the partnerships developed. The firms viewed the learning process and the development of relationships with external learning partners as an inter-linked process. The way firms learnt and shared the results of that learning was part of an ongoing dialogue and an integral part of the relationship development. This was akin to the findings of Mohr & Spekman (1994), who proposed that the way firms learn, and the way they shared the result of that learning, was critical to the success of partnerships and alliances established between the firms.

The learning process and relational development were inter-winding processes, each dependent on the other. Firms learnt through their relationships, but the outcome of the learning enhanced quality of the relationship. Morgan, Katsikeas & Appiah-Adu, (1998) endorsed this view and proposed that learning supported relational developments because learning organisations typically enjoyed good relationships with suppliers, customers and related constituencies. As the learning dialogue developed so did "an attitude of mutual accommodation." (p.370)

This meant that when unanticipated problems arose, the partners showed a greater flexibility in accommodating each other.

In summary, therefore, it is suggested that an important source of knowledge acquisition in the firms studied was the relationships they had formed in their international markets. The learning process was seen as an ongoing dialogue with the partnerships established and firms used this information as a basis for learning. The information from these relationships was viewed as having greater value than other, more formal, sources and critical to the capability of the firms to compete effectively on international markets. However, the learning process was seen as an iterative one and an integral part of the of the relationship development.

Organisational Learning and Sustaining a Competitive Advantage on International Markets

In Chapter 2, the debate as to how export performance should be measured was explored. It was seen that, researchers had been wrestling with such issues as to how to conceptualise performance, whether performance should be measured at the firm or venture level, whether subjective or objective frames of reference should be used as well as what indicators should performance be measured by.

However, as was indicated in Chapter 2, there were indications of a changing perception as to how performance on international markets should be evaluated.

Katsikeas, Deng & Wortzel (1996) suggested that SMEs evaluated performance in the context of the challenges faced in the international marketing environment. The firm's perceptions of success, therefore, was perceived as being more relevant than simple financial indicators. Madsen (1998) argued that the evaluation should reflect the *theories-in-use* (p.81) by owners and managers of SMEs themselves. This was an important issue within this thesis. The inquiry for this thesis followed the traditions of the naturalistic paradigm. Thus, the assumption was made that any individual construction was that individuals attempt to make sense of reality. This was consistent with the ideas behind the *theory-in-use* as expressed by Madsen (1998) in that, as in this thesis, the contribution of the managers and owners of the SMEs in understanding how to conceptualise performance on international markets was recognised as a valid one. However, whilst there was a growing recognition that any conceptualisation of export performance needed to reflect the strategic objectives of firms on international markets, export performance was invariably viewed as a reflective indicator and generally in terms of an absolute value that could be measured.

It is being suggested in this thesis, that organisational learning is the paradigm in which the nature of firms that compete effectively on international markets can be fully explained. This has implications for the way in which the performance of a firm competing on international markets is viewed. How effectiveness is conceptualised within the organisational learning paradigm therefore requires clarification.

Garvin (1993) considered effective learning organisations as those that become skilled at "creating, acquiring and transferring knowledge, and at modifying behaviour to reflect new knowledge and insights"(p.80). Senge (1990), more poetically, described such organisations as:

> "organisations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together" (p1).

This is very much akin to the view of Pedlar et al (1991), who saw a learning company "as one which facilitates the learning of all its members and continually transforms itself" (p.1).

Thus the effectiveness of the learning process is couched in terms of the learning activity itself and not intrinsically linked to performance improvements within a firm. This seems to suggest a narrow view of the concept of an effective learning organisation. Whilst it is recognised there may be many outcomes of effective learning which may not have any direct linkage to performance improvements, it is suggested by the author, there needs to be some examination as to whether the learning activity is a valid one. An organisation could effectively learn, but that the learning outcome may itself be misguided. As Huber (1991) pointed out "entities can incorrectly learn and they can learn correctly that which is incorrect" (p.89). The link, perhaps between effective learning and performance improvements therefore was the use of an organisation's memory of its learning.

Sinkula et al (1997) argued that it was organisational memory that was the fundamental result of organisational learning. Without an effective organisational memory, firms were caught in a trap where ongoing learning efforts bred long-term dynamism in their marketing programmes but failed to produce long-term market performance improvements, because they were trapped in a *two steps forward, one step back* (p.310) quagmire. Thus, like Fiol & Lyles (1985) they viewed behaviour change as the link between organisational learning and its ultimate objective, performance improvement.

Such thinking was reflected in the way in which the firms studied viewed the outcome of their own success in international markets. Success was perceived in terms of development and growth rather than short term financial indicators. Thus, the firms had dynamic perspective in assessing their own performance.

As Flybait said:

> "My only reward is seeing the company grow."

Success was viewed in terms of the achievement of strategic objectives and the progress the firm made, the outcome of this being viewed as growth. This was reinforced by Thompson who said:

> "I've taken the company all the way through from nothing to over £5 million turnover in international markets, and over the last 10 years the contribution of that trade to the

overall profit of the company has been higher than any of our competitors. Now I think there is a feeling in this company that it has been successful for a long time and that we can't be less successful."

Like Flybait, Thompson viewed success on international markets in terms of growth and performance comparative to that of their competitors. However, their perception of success developed and changed as the firm built a successful international business. As the firms developed, new norms were established and negative deviations, became, no longer acceptable to them. B F Rail reflected such a view:

"We thought that if we could do £100,000 worth of sales on the export side, that would be good, then when we did £100,000, that became the standard. Now we have done a quarter of a million in lots of countries, it's like a salesman's bonus, isn't it, it becomes the norm. A pat on the back for last year but what can you do next year? So you have to grow, you can't stagnate and stay the same."

In the final interview, following the purchase of the company, the Managing Director's perception of success had changed again:

"I'm 51 now and all things being equal, I'd want to retire when I'm 60, so I'm really looking at about a 9 year plan. The plan is that I can build this up to make it lucrative to people who might want to merge or might want to buy. In achieving that goal I have to broaden the customer base. So if you have got people in South Africa, people like Malik in America, Amos in Germany and Indonesia, listed as your customers it lets them know that we're not just a back street boy. I think if I can broaden that, to put down Irish Rail or French Railways or another national railway, I think that is success as I think it says a lot about a small company if they are supplying international railways."

B F Rail's core purpose in developing internationally in 1990 had been to broaden the customer base so as not to be dependent on the UK market. Whilst the core purpose remained the same, the parameters constituting the achievement of that objective had substantially developed as the firm had developed its international base over the past decade.

This was akin to Slater and Narver's (1995) view of the outcome of organisational learning. Like Sinkula, et al (1997) they saw organisational memory as a major outcome of the learning process but viewed this more as the collective knowledge of an organisation which guided the future behaviour of the firm. As the knowledge base developed so did the signals the firms used to guide their future behaviour. This was consistent with the work of Huber (1991). He argued that learning need not result in a specific observable change in behaviour, that it may be more important that learning changed ones perception or *cognitive maps*, "An entity learns if, through its processing of information, the range of potential behaviours is changed"(p.89).

Thus the outcome of organisational learning could be *implicit* and contribute to the capability of a firm to sustain a competitive advantage on international markets by changing the firm's perception of the challenges in those markets. As knowledge was acquired and learning took place so confidence grew. As confidence grew, the perception of risk changed and so further barriers to learning were removed. There then was a sea-change in the company's perception of its international markets. What was previously seen as too risky and as a barrier to further international development became simply a problem to be solved, and so the learning process accelerated. As B F Rail stated:

> "the more experience you've got, the more successful you are in other markets. The first time you go into a new market you don't know a thing, but after a few, then, you do know and you take that with you."

Flybait held a similar view:

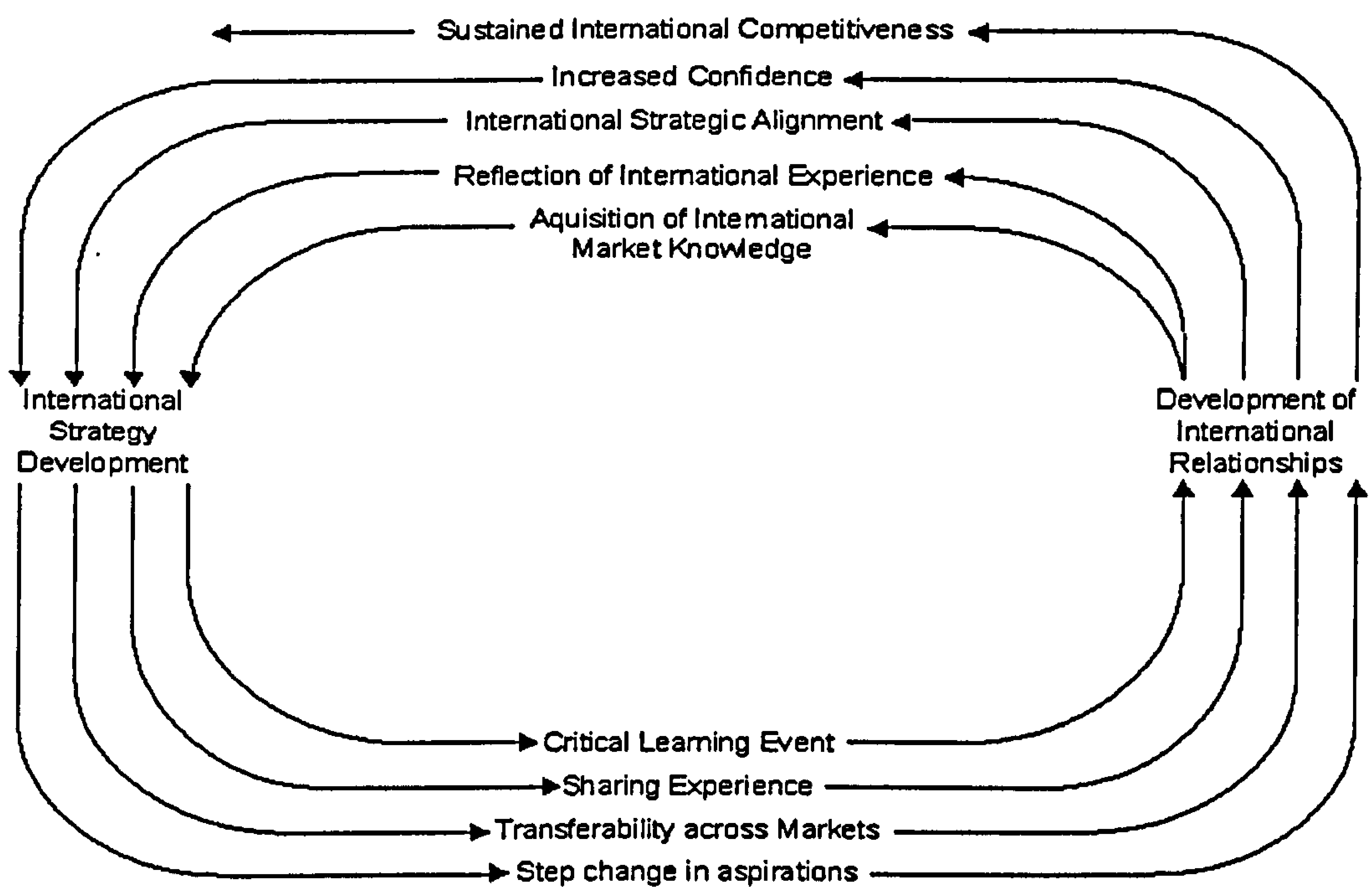
> "I think confidence is a big thing. The first time you export you think, oh heck! you know, what if anything goes wrong and you think about the logistics but, then, you get the confidence and you don't initially think about the problems, so I think it's the confidence and the experience of knowing that you've done it".

Thus the success experienced in competing internationally, was in itself part of the formative learning process. This is quite different to the view of export performance evident in the previous studies reviewed in Chapter 2 of this thesis. In these studies, export performance was viewed as purely an outcome to be measured by using reflective indicators. A conclusion of this thesis is that performance on international markets was not a summative assessment determined by a number of explicit criteria, but as can be seen from the previous discussion integral to the international development process itself. Styles (1998) in fact highlighted the need for researchers to question the "assumption of export performance being a reflective scale" (p.28).

Diamantopolous (1999) supported the suggestion of Styles. He went on to hypothesise success itself as a causal factor in export performance and, like Styles, suggested that future research needed to examine export performance from the perspective of being a formative indicator rather than purely a reflective one.

The conclusions of this study seem, therefore, to constitute part of a growing recognition, that success on international markets is not simply an outcome of certain causal factors. Neither is it necessarily a phenomena that can be measured across companies by universally agreed indicators. Rather the indicators used by firms are viewed by them as a formative assessment and part of the signal learning process that informed the company as to whether strategic and performance objectives on international markets were being achieved. They were used to generate advance knowledge for the company of emergent opportunities and threats. The author therefore proposes that the linkage between the outcome of the organisational learning and sustained competitive success on international markets is more aptly represented as a learning spiral as depicted in Figure 14.

Figure 14: The Organisational Learning Spiral in Firms Competing Effectively on International Markets



As has been discussed, the international strategy developed and the network of relationships the firms formed in international markets were integral to the firm competing internationally. However, the proposition of this thesis is that, it was the effectiveness of the firm's capacity to learn that explains the dynamics processes underpinning a firms ability to sustain that effectiveness over a period of time. This is depicted in Figure 14.

As can be seen from Figure 14, learning could perhaps, be stimulated, by a critical event occurring in the international marketing environment. If a firm was not an effective learner, the starting point of learning could be the event itself, it may acquire knowledge after the event but perhaps fail to translate that into an understanding, and so, never progress beyond the immediate circle in which it operated.

The starting point of a firm that was an effective learner could be the event itself, or perhaps be, the acquisition of knowledge prior to the event, and the signalling of potential implications to be inputted into the strategy development process. That experience would be reflected upon with internal and external partners through an iterative process, sharing the experience internally and dialogue with external partners. The enhanced understanding would lead to a strategic alignment and so feed back into the strategy development process. The learning response would be transferred across its international markets through the virtual structure of partners built, to further build its competitive advantage internationally. The confidence generated from this success would enhance further strategy development and lead to a step change in the level of aspirations. A more ambitious strategy and a more complex network of relationships is then developed, and so the sustained ability of international competitiveness is achieved. This, which in turn, would lead it to a new level in the learning spiral and so the process continues.

Thus, the outcome of learning becomes the sustainability of competitive success on international markets, a dynamic entity which shifts and grows as the firms generates its capacity to learn.

Synthesis & Conclusions

In this chapter, it was proposed that in order to develop a full understanding of the nature of SMEs that compete successfully on international markets it was necessary to draw on the literature of organisational learning. It is suggested that placing the explanation as to how firms competed effectively on international markets within this paradigm is a contributory value of this thesis.

In Chapter 2 it was suggested that there was a need to establish a much better understanding of the linkages between strategy and the performance of small medium sized enterprises on international markets. The work of such authors as Cavusgil & Zou (1994) and Yeoh & Jeong (1995) signalled the need to draw from a wider field of literature in seeking explanations for the exporting behaviour of SMEs. They suggested previous research had neglected the interplay of internal and external factors and suggested the need to explore the contextual dimensions of export performance. It was suggested, in Chapter 2, that whilst external forces in the international environment were seen to influence export marketing strategy, this was perceived to be a uni-directional and sequential influence in that external forces influenced export marketing strategy which in turn impacted on export performance.

This seemed to assume a linear process and did not account for the possibility of any feedback into the strategy process of a firm's performance on international markets. Thus, there was an assumption that the determinants of export performance impacted in an orderly fashion and the outcome influenced the performance of a firm.

The chapters of this thesis contributed to the understanding of how SMEs effectively compete internationally by showing that rather than being a sequential deterministic process, the nature of firms that compete effectively on international markets is rooted in the dynamic processes by which firms develop their learning capability to acquire knowledge on international markets, reflect on that knowledge and develop the organisational capabilities to respond. The findings of this study suggest that performance itself, is part of that learning process and that this process, is a circular iterative process rather than a linear and deterministic one, as, suggested by earlier research.

It was also suggested in Chapter 2 that the international activities of SMEs in previous research had been normally conceptualised within the marketing mix paradigm rooted in exchange theory (Styles & Ambler, 1994). A conclusion of Chapter 2 was that in investigating the nature of firms that competed internationally it was necessary to conceptualise SMEs activities within the relational paradigm and develop an understanding of the development of the network of relationships between the company, the customer, members of its supply chain and other groups who may influence the firm. Explanations as to how firms structured and organised their activities internationally were sought from the relational paradigm. A contributory value of the thesis in seeking an understanding from this paradigm is the suggestion that firms developing long-term partnerships constructed an extended *virtual organisation* which not only gave firms access to markets and resources, but also, external learning partners who provided vital links both in the provision of market knowledge and input into the strategy development process.

Thus, it was the organisational learning processes that provided the dynamics within the firms, to effectively manage the interplay between the international strategies of the firm and the international marketing environment and that it was the external relationships that provided the vehicle for that learning.

The view of learning organisations as entities which have the capacity to change and improve was addressed as early as 1963 by Cyert & March who viewed organisational learning, as a process by which organisations collectively learnt through interactions with their environments. Thus, whilst organisational learning was not necessarily a new idea, Grant (1996) suggested that what was new was the analysis of an organisation as an integrator of knowledge being viewed as the most appropriate frame of reference for researchers in studying organisational capability. Lukas, Hult & Ferrell (1996) suggested that effective performance rested on an organisation's ability to learn, and that supporting such a notion was the large number of studies that noted the lack of success of organisations who failed to learn from past experience.

However, there seemed to have been little written on organisational learning in the international marketing context. Bartlett & Ghoshal (1989), in a major study of the global telecommunications switching industry, concluded that "the ability to learn and to appropriate the benefits of learning in multiple national markets differentiated the winners from the losers" (p.24). This study however, referred to large global corporations within one particular sector.

There has also been limited attention devoted to the theme of organisational learning in the UK marketing context. Doyle & Wong (1998) carried out a study of 52 large companies, examining the role of marketing in determining international competitiveness. They identified that managers in successful companies placed greater importance on learning about customers and were proactive in searching for new opportunities in the market and held the view "that the learning organisation *was a force* shaping companies" (p.516).

Morgan, Katsikeas, & Appiah-Adu (1998) supported this notion by proposing that learning was the organisational paradigm in which to examine firms as it was the learning processes that were reflected in the organisational capabilities of a firm. Their study of 231 large firms in the UK was one of the first to examine the link between marketing-orientation and organisational learning. They concluded that organisational learning capabilities encouraged market-oriented thinking and behaviours in a firm. However, they held the view that only larger firms had the systems capability to develop as learning organisations and excluded firms of less than 200 personnel from their study in the UK, as they saw SMEs as having only limited intelligence gathering processes and learning potential.

This is perhaps why there has been scant attention to organisational learning in the context of smaller firms. Greenley (1995) found that only 16% of medium-sized firms studied in the UK were found to employ intelligence-gathering and planning activities. One recent study in the UK (Chaston, Badger & Sadler-Smith, 1999) examined the relationships between the performance of SMEs and organisational learning. They found no statistically significant relationship. This, however, was based on a postal survey of 106 firms.

In this study, organisational learning was viewed as the dynamic entity that sustained competitive success of SMEs in international markets over a period of time. Perhaps then the reason for the findings in the studies mentioned above, was the very fact that the studies took place at one particular time interval and did not have the benefit of longitudinal data. A contributory value of this study was that firms were followed longitudinally and so it was possible to gather insights into the dynamic nature of firms competing internationally over a period of time. Pelham & Wilson (1996) examined the impact of market orientation on small business performance, using longitudinal data on a sample of 68 SMEs in the USA. They concluded, as did this study, that a high marketing orientation / learning orientation was a strong and consistent influence on small firm performance.

Seeking explanations as to the nature of SMEs that effectively competed on international markets, within the organisational learning paradigm, is a contributory value of this thesis. In this chapter, the dynamic process of learning was suggested to be, the means, by which, the firms successfully developed international strategies and, maintained an effective network of partnerships across their international markets. The outcome of this process was the sustained competitive advantage on international markets.

The strong learning orientation helped build the organisational capabilities in the firms to deliver superior value in international markets and it was through the organisational learning process that firms made the step change in their aspirations, their operations and in their attitudes, in order to sustain competitive success in international markets over a period of time. Sustained competitiveness on international markets, it was suggested, was in itself a part of the learning process. Thus, as the firm achieved a sustainable advantage in their international markets, the aspirations of the firm in terms of development and growth in international markets also made a step change. As they used their learning experiences, perceptions to barriers changed and the firms were able to further build the capability to sustain their competitive effectiveness on international markets. This success generated a confidence which in turn perpetuated the learning cycle by propelling the firm to a new aspiration level which became the new starting point for the international strategy development process and so a new learning cycle.

Implications of the Findings to the Policy Debate

The initial motivation to explore the research subject of this thesis was generated from a belief, by the author, that a clearer understanding of the nature of firms that competed effectively on international markets would inform the policy debate on how best to support SMEs in their international development. From this understanding the implications for public policy could be drawn and initiatives designed to positively encourage the international development of SMEs in the Yorkshire & Humber region.

Earlier in this thesis, the author explained how previous research carried out had led her to conclude that government support services had a tendency to focus on helping less experienced exporters complete an initial export transaction rather than developing a long term plan of support to help the firm develop internationally. Furthermore, previous research had shown that respondents had considered that the providers of export support services focussed on the selling of available services rather than meeting the particular needs of the SME. It was suggested by the author that this was in some part, due to a lack of understanding of the capabilities SMEs needed within the firm to compete effectively on international markets.

If organisational learning, as discussed in this chapter, is the dynamic process through which firms developed effective strategies and built a virtual international structure of efficient operations, then, the development of these learning capabilities in firms is a major challenge that needs to be addressed. The proposition of this thesis is that key vehicles for learning for SMEs, in international markets, were experience and an, on-going dialogue with partners, both external and internal. University business schools and other training providers therefore perhaps need to reflect on how appropriate the current modes of learning and curricula offered are to such SMEs.

In the Yorkshire and Humber region, the findings from this research study have informed and influenced the debate in the formulation of the Regional International Trade Strategy being developed by a partnership of support providers, including British Trade International, Yorkshire Forward, universities and local support agencies. Central to the discussion emanating from this study was the recognition of the importance of focussing resources to support the development of the capabilities within the firm. This has led to a greater focus on the development of initiatives to put resources directly into firms. In one initiative, this has resulted in firms being able to obtain a direct resource to help them build relationships in international markets more effectively. In another initiative, the focus has been in putting resources into the firm to help build the capability within the firm to develop a sound knowledge base and enhance their learning capability in international markets.

A primary area of interest of support agencies is how to identify firms at the earlier stages of development with the potential to succeed in international markets. Limited resources mean government agencies need to show the monies invested in a firm have had a measurable impact. If firms, exhibiting the learning capabilities discussed above, can be identified at an early stage of their development, these firms can then perhaps be targeted with government assistance to help them develop internationally. Evidence to support such a notion was suggested in a study in the USA of 100 small firms in the environmental sector (Burpitt & Rondinelli, 1998). They compared the learning orientation of fifty non-exporters and fifty exporters, concluding that firms with a high learning orientation were more likely to perceive international expansion as attractive. Firms that had a low learning orientation perceived export markets as economically uncertain and of high risk. An implication of the findings, therefore, was that to succeed, government programmes needed to shape perceptions of exporting "as a learning opportunity that can lead to better economic performance in the future" (p.64). However, the study was simply a telephone survey examining a firms perceptions and attitudes and as such shed little light on whether the firms examined were able to translate their propensity to learn into actually competing effectively on international markets. Such discussions however do raise interesting questions as to how the findings of this research can be further developed by examining firms at earlier stages of international development and examining their propensity to learn.

Limitations and Implications for Further Research

This study is exploratory in nature and the findings refer to the specific context of a small sample of SMEs in the South Yorkshire region of the UK. A limitation of the study therefore is that the data generated was interpreted ideographically, in the context of the particulars of the firm rather than in broad generalisations. There is, therefore, no claim by the author that the findings are a universal truth that can be generalised to all SMEs (Guba, 1985; Johnson & Gill, 1997). As discussed in Chapter 1, the region within which the study took place underwent an economic restructuring in the period since 1979 and as such, the firms followed, may have exhibited particular behaviours peculiar to the economic context in which they were studied.

Furthermore, this study explored the nature of firms identified as already effectively competing internationally. It did not explore the process by which firms internationalised their activities, nor whether it was appropriate to seek explanations as to how firms went through the process of internationalisation by drawing from the organisational learning paradigm. Thus the theory development in this chapter relates solely to seeking explanations as to the nature of firms that were effective in competing internationally, not in how SMEs, in general may develop internationally.

Within these limitations, the author is confident of the trustworthiness of the findings. In terms of credibility, the strength of carrying out the study longitudinally meant that issues were not only identified, but also investigated further on subsequent visits. The process of analytical induction meant that data was continuously reflected upon. This allowed the emergence of issues not immediately apparent, to be further explored on subsequent visits. The aim of using purposive sampling was to maximise the depth of information gathered to develop insights into the nature of SMEs competing internationally. As such the findings can be viewed as dependable and used as a basis for further exploration of the issues raised in this thesis.

Further research, therefore, needs to examine the applicability of the theory development to other regional and economic contexts to assess the generalisability of the findings. The verifiability of the conclusions drawn needs also to be assessed by testing the validity of the findings across a larger sample of firms than used in this study.

As stated earlier, an area of interest for further exploration is the implications of the findings for firms at earlier stages of international development. Funding has been granted for a research study to assess the capabilities of firms at different levels of international experience. The aim of the research is to compare the relative strengths and weaknesses in each of the areas explored in this thesis, in firms at differing levels of international experience. The aim of the research is the development of a methodology to profile firms to assess the level of their international competitiveness. The intention is that the resultant methodology could then also be used by support agencies to help formulate support initiatives targeted towards the specific needs of the individual firm. However, as previously stated, this thesis explored the nature of firms successfully competing internationally. The question, that future research therefore, needs to resolve is, whether by identifying firms that show evidence of strong learning capabilities, forecasts as to their potential success on international markets can be safely predicted.

A Personal Reflection

The author commenced her career in the marketing department of the British Steel Corporation in Sheffield, in the mid-seventies. As part of my role I made frequent visits to many of the small and medium sized firms in the region, predominately in the engineering industry. I was continually impressed by the vibrancy of these firms and often transfixed on my visits by the action packed and often awesome spectacle of many of the production processes in these small but lively firms.

Returning to the area, after the absence of a decade, in the eighties, it was with some poignancy I discovered that many of these firms no longer existed. Not only were the forging hammers now silent, whole areas of the once industrial heartland had been decimated, buildings bulldozed and land laid bare.

A decade further on, as I have carried out the research for this thesis it has become increasingly apparent, that, whilst there was no doubt as to the severity of the economic decline in the area, a significant number of firms not only survived, but enjoyed substantial growth. Every research study begs new questions. A question of personal interest, arising from the research journey undertaken for this thesis, is to explore why, when so many firms failed to do so, did these firms not only manage to survive a severe recession but also grew in strength and flourished. The future of the SME competing internationally maybe perhaps in cyberspace, even so the lessons learnt from such survivors, could perhaps equip firms with the insights and wisdom necessary to sustain their competitiveness in the new world.

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APPENDIX 1: THE SAMPLE OF 25 SMEs

Company Business	Size band	% t/o Exported	Years Exporting	Regular Markets	No of International Markets
Glass	200+	25	100	50	75
Magnetic Discs	200+	50	50	28	33
Medical instruments	200+	64	50	60	70
Precision Forgings	200+	45	16	10	20
Cutlery	100-199	40	16	40	45
Valves	100-199	45	20	30	40
Steel stockholder	100-199	33	11	10	30
Specialist Engineers	100-199	49	10	20	30
Silverware	25-99	50	30	30	63
Safety lamps	25-99	50	50	30	60
Specialist engineering	25-99	70	50	10	15
Steel rolling equipment	25-99	44	25	20	30
Diving equipment	25-99	84	11	20	20
Cutting tools	25-99	40	15	30	40
Hand tools	25-99	30	12	30	30
Software development	25-99	38	5	9	26
Medical Instruments	10-24	45	7	11	20
Fine Steels	10-24	50	12	5	6
Forgings	10-24	80	10	6	8
Rail products	10-24	25	6	6	6
Fishing tackle	10-24	25	10	27	31
Wood working equipment	10-24	80	22	6	10
Engineering machinery	1-9	80	10	5	5
Engineering	1-9	56	12	8	50
Shoes	1-9	80	8	5	9

Appendix II: Research Instrument for the Initial Interviews of the Sample of 25 SMEs.

SECTION ONE: COMPANY INFORMATION

Company Name: ____________________

Employees: ______ Established: ______

Address 1: ____________________

Address 2: ____________________

Phone: ______ Fax: ______

Postcode: ____________________

Contact Title: ____________________

First Name: ____________________

Surname: ____________________

Position: ____________________

Email Address: ____________________

Web Site: ____________________

Turnover: ______

Export Turnover: ______

Exporting Since: ______

Export Manager: ____________________

Date: ______

SECTION TWO: EXPORTING STRATEGY

2.1 In summary how would you describe the corporate mission of your company.

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2.2 Which of the following statements most closely relates to your approach to exporting?

- We receive occasional orders for exports ☐
- We receive regular export orders (4 or more from the same country) ☐
- We are developing our overseas customer base ☐
- We have a good export business in a number of countries and are researching & entering new markets ☐
- We have a well developed international business strategy which is committed to international expansion. ☐

2.3 In total how many different countries do you export to?..........................

2.4 On the table below please rank:

(a) your main markets
(b) your main exports in terms of % of total export turnover
(c) your approximate share in each country market
(d) markets you have entered since 1991?

Markets	% of export T/O	Market share %	Entered since 1991

2.5 How would you describe your strategy in terms of developing new export markets

- Expand into as many markets as possible ☐
- Opportunistic exports only ☐
- Focus on a few select markets ☐
- Other ☐

2.6 Do you expect to see growth in future export markets? If so, what are the major ways you expect this growth to be achieved?

- Don't expect growth ☐
- Domestic customers Internationalising ☐
- New overseas customers ☐
- Growth from current overseas customers ☐
- New products/service lines ☐
- Taking business from foreign competitors ☐
- Change in positioning of the company ☐

2.7 How important is exporting to your firm in terms of achieving overall growth objectives?

- Not at all ☐
- Peripheral ☐
- Moderately important ☐
- Very important ☐
- Essential (ie most growth) ☐
- Essential (ie firm is a 100% exporter) ☐

2.8 Are you therefore considering:

- Expanding your exporting activities ☐
- Maintaining your export activities at present levels? ☐
- Decreasing your export activities ☐
- Discontinuing your export activities ☐

2.8 How well does your current strategy for your organisational structure?

- Very well, few changes needed ☐
- Well, some changes needed ☐
- Uncertain ☐
- Not well, many changes needed ☐

Comment

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SECTION THREE : EXPORT MOTIVATIONS

3.1 What prompted you to start exporting? Please indicate the answer which is most representative of your initial export activity?

Domestic customers moving abroad	☐
Contact from foreign buyer(s)	☐
Trade leads through government agency (local /national)	☐
Trade missions and / or trade fairs	☐
Market analysis and research	☐
Other (please specify)	☐

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3.2 Now we would like to focus on your present exporting activities. Please assess the importance of each of the following in your present motivation to expanding your international business.

	All important	Quite important	Fairly important	Unimportant	N/A Irrelevant
Competitive pressures	☐	☐	☐	☐	☐
Desire for growth and profits	☐	☐	☐	☐	☐
Excess capacity	☐	☐	☐	☐	☐
Seasonal variations in domestic markets	☐	☐	☐	☐	☐
Familiarity with foreign country	☐	☐	☐	☐	☐
Efficient production techniques	☐	☐	☐	☐	☐
Efficient marketing techniques	☐	☐	☐	☐	☐
Unique product advantage	☐	☐	☐	☐	☐
To exploit new technology	☐	☐	☐	☐	☐
Maximise market advantage	☐	☐	☐	☐	☐
Market diversification	☐	☐	☐	☐	☐
Declining domestic sales	☐	☐	☐	☐	☐
Home market saturation	☐	☐	☐	☐	☐
Pressure on margins	☐	☐	☐	☐	☐

SECTION FOUR: ENVIRONMENTAL AWARENESS AND RISK PERCEPTION

4.1 Please indicate how closely your company monitors events in the following categories.

SCORE	0 Not at all	1 Ad Hoc	2 Limited Attention	3 Audits Impact	4 Thorough Understanding	5 Integrated into Strategy
Global Economic Trends	☐	☐	☐	☐	☐	☐
European Integration	☐	☐	☐	☐	☐	☐
European Legislation & Regulations	☐	☐	☐	☐	☐	☐
European Monetary Union	☐	☐	☐	☐	☐	☐
International Trade Opportunities	☐	☐	☐	☐	☐	☐
Key Export Markets	☐	☐	☐	☐	☐	☐
Global Competition	☐	☐	☐	☐	☐	☐
Environmental Issues	☐	☐	☐	☐	☐	☐
Developments in NAFTA	☐	☐	☐	☐	☐	☐
Developments in Asia Pacific	☐	☐	☐	☐	☐	☐
Developments in China	☐	☐	☐	☐	☐	☐
World Trade Organisation	☐	☐	☐	☐	☐	☐

4.2 The following are elements of risk perception. Please assess the importance of each of the following elements of risk perception.

	All Important	Quite Important	Fairly Important	Un important	Irrelevant N/A
Currency uncertainties (foreign exchange controls, devaluation, etc)	☐	☐	☐	☐	☐
Financial policy uncertainties (non-payment, delays in repayment schedules, defaults, etc)	☐	☐	☐	☐	☐
A country's external dependency (balance of payments problems, level of external reserves, external debt, etc)	☐	☐	☐	☐	☐
Existence of political instability (threat of expropriation, nationalisation, radical change in political orientation, etc)	☐	☐	☐	☐	☐
Lack of adequate and timely information on economic performance (GNP, growth rates, etc)	☐	☐	☐	☐	☐

Are there any important elements missing from this list? Please describe:

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SECTION FIVE: RESEARCHING INTERNATIONAL MARKETS

5.1 What key market characteristics do you look for in evaluating whether a market may have potential for your company:

- Guess work ☐
- Size ☐
- Accessibility ☐
- Competitor Activity ☐
- Key market profitability ☐
- Other (please specify) ☐

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5.2 In the markets you have entered in the last five years, how do you decide to enter:

- Geographically closest ☐
- Culturally closest ☐
- Large population/market size ☐
- Lack of competitors ☐
- Advice from good personal contacts in the UK ☐
- Advice from good personal contacts in the market ☐
- Follow domestic customers into their markets ☐
- Follow sister companies into their markets ☐
- Ease of import regulations ☐
- Orders come from a particular market ☐
- Change encounter/information ☐
- Other (please specify) ☐

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5.3 What kind of research does your firm generally carry out <u>before entering a market</u>?

- None ☐
- Market size estimation ☐
- Consumer usage/needs survey ☐
- Competitor analysis ☐
- Social/cultural research ☐
- Distribution analysis ☐
- Consumer satisfaction ☐
- Market share tracking ☐
- Other ☐

5.4 For a market you have recently entered can you think through the research steps you took prior to making your decision to enter. Please number the order in which you carried them out.

Desk Research	☐	Trade Missions	☐
Chamber/ DTI/ Business Link	☐	Detailed Research	☐
Consultants	☐	Embassy	☐
Universities	☐	Agents/distributors	☐
Other companies in the Market	☐	Networking	☐
Trade Fair / Exhibition	☐	Other	☐

5.5 To what extent does this research continue after market entry

Research stops once in the market	☐
Ongoing market size estimation	☐
Ongoing consumer usage/needs surveys	☐
Ongoing competitor analysis	☐
Ongoing social/cultural research	☐
Ongoing distribution analysis	☐
Ongoing consumer satisfaction	☐
Ongoing market share tracking	☐
Other research ongoing	☐

Other (please specify)

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SECTION SIX: DEALING WITH MARKET CHALLENGES

6.1 Where you have tried and have had difficulties in one or more markets, please identify the key reasons why. Was this due to:
(please tick as appropriate)

	All Important	Quite Important	Fairly Important	Un important	Irrelevant N/A
Failure to obtain sufficient market information	☐	☐	☐	☐	☐
Cultural/language problems	☐	☐	☐	☐	☐
Failure to dedicate sufficient resources	☐	☐	☐	☐	☐
Insufficiently trained personnel	☐	☐	☐	☐	☐
Inability to meet customer requirements	☐	☐	☐	☐	☐
Inability to comply with necessary quality standards	☐	☐	☐	☐	☐
Poor Overseas distribution capability	☐	☐	☐	☐	☐
Transportation/delivery delays	☐	☐	☐	☐	☐
Non-payment / Delay of contract/sales	☐	☐	☐	☐	☐
Poorly executed promotional programme	☐	☐	☐	☐	☐
External economic influences	☐	☐	☐	☐	☐
Failure to make special payments	☐	☐	☐	☐	☐
Others (please specify) / expand on above	☐	☐	☐	☐	☐

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6.2 In the case referred to in the above example, please could you explain what actions were taken to overcome the hurdles.

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SECTION 7: MARKET SUCCESS CASE

7.1 Where you have been particularly successful in a specific market, what has been the most important element of that success?
(please tick as appropriate)

	All Important	Quite Important	Fairly Important	Un important	Irrelevant N/A
Sufficient market information obtained	☐	☐	☐	☐	☐
Cultural/language empathy	☐	☐	☐	☐	☐
Dedicate sufficient resources	☐	☐	☐	☐	☐
Sufficiently trained personnel	☐	☐	☐	☐	☐
Met customer requirements adequately	☐	☐	☐	☐	☐
Met necessary quality standards	☐	☐	☐	☐	☐
Overseas distribution capability well managed	☐	☐	☐	☐	☐
Transportation/delivery on time	☐	☐	☐	☐	☐
Repayment schedule on time	☐	☐	☐	☐	☐
Effectively executed promotional programme	☐	☐	☐	☐	☐
External economic influences managed well	☐	☐	☐	☐	☐
Others (please specify) / expand on above	☐	☐	☐	☐	☐

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7.2 Tell us how the venture developed from its beginnings. We would like to trace the venture through its life chronological order in terms of 'critical events' or key stages. For example, the first critical event may be the beginning of the venture (eg being contacted by a foreign distributor. Another might be the actual launch of the first product into the market.

NOTE - CRITICAL EVENTS TO LOOK OUT FOR MIGHT BE:

- *the event that sparked the market entry*
- *planning the first order/shipment*
- *the first shipment/order*
- *initial results and subsequent claims*
- *some key problems/obstacles that had to be overcome.*

FOR EACH STAGE PROMPT FOR THE FOLLOWING:

- *Timing*
- *Context (eg contidions in the home market, export market, firm)*
- *Motivations by key people involved*
- *Specific actions taken (and by whom)*
- *Outcomes*
- *Key issues*

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7.3 What role did personal contacts in the UK and abroad have in progressing the venture?

	UK Contacts	Contacts in export markets
None	☐	☐
Awoke interest in the market	☐	☐
Provided market information	☐	☐
Introduced customers to the firm	☐	☐
Introduced the firm to potential customers	☐	☐
Assisted with local bureaucracy	☐	☐
Helped enter the local network	☐	☐
Other (please specify)	☐	☐

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7.4 Why do you see the particular venture as a success?

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SECTION 8

In the following sections, respondents were asked to reflect upon how they approached a range of international marketing activities, the international marketing strategies pursued, as well as their attitudes and opinions with regard to competing internationally.

(0= no evidence; 1 = ad hoc; 2 = limited attention; 3 = audit impact; 4 = thorough understanding; 5 = fully integrated)

There is a systematic process for the collection and use of published international market information.	SCORE	EVIDENCE/COMMENTS
1. The company regularly makes use of support service information		
2. The company subscribes to industry, trade and government research publications.		
3. The company regularly makes use of on-line information services such as the Internet		

The Company fully invests in ensuring it has a thorough knowledge of its export markets	SCORE	EVIDENCE/COMMENTS
1. It has a knowledge of competitor activity		
2. It regularly surveys export markets		
3. It has a system of information retrieval from key intermediaries		

The Company makes full use of external support services	SCORE	EVIDENCE/COMMENTS
1. There are strong links with local business link & local export club support services.		
2. They have a close working relationship with their bank.		
3. They make full use of national DTI information and support services.		

The Company places importance in developing a cultural empathy with foreign markets.	SCORE	EVIDENCE/COMMENTS
1. The company regularly employs foreign staff in its overseas/UK markets		

2. The company employs foreign staff in the company		
3. The MD regularly visits overseas markets.		

The Company has a proactive policy of innovatively developing products for international markets.	SCORE	EVIDENCE/COMMENTS
1. The company makes extensive use of new technology in the goods and services it exports overseas.		
3. Partnerships with key foreign customers and suppliers are actively sought as part of the NPD		
4. Partnerships with Universities and other research organisations are actively pursued		

The Company is able to exploit clear product advantages in export markets	SCORE	EVIDENCE/COMMENTS
1. Its range of products is modified and adapted to market needs		
2. Products have clear advantages over indigenous competitors.		
3. The company are investing in building a brand name internationally.		

Pricing; the firm uses pricing to gain competitive advantage across international markets.	SCORE	EVIDENCE/COMMENTS
1. The company regularly looks to extend credit to foreign customers		
2. The company continuously reviews pricing to cover fluctuations in costs.		
3. The company accepts both Sterling and foreign currencies as payment for goods.		

The Company is committed to quality.	SCORE	EVIDENCE/COMMENTS
1. There is an explicit statement of the company's quality policy.		
2. There is an explicit process for translating the company's quality policy into departmental goals and measurable targets.		
3. The company is committed to supplying quality products equally both domestically and internationally.		
4. Procedures are in place to monitor and measure contribution of export performance.		

The Company has an effective strategy in place for managing the supply chain	SCORE	EVIDENCE/COMMENTS

to & from foreign customers		
1. The company makes regular communications with overseas partners.		
2. The company regularly encourages partners to visit the UK.		
3. The company makes regular use of partners information on their foreign country markets.		

The Company has developed an innovative strategy of networks and relations to maximise competitive advantage	SCORE	EVIDENCE/COMMENTS
1. The company develops alliances to acquire skills & technology		
2. The company develops alliances to acquire potential customers.		
3. The company develops alliances to acquire distribution channels & production capabilities.		

The Company has a well defined export promotional campaign	SCORE	EVIDENCE/COMMENTS
1. The company makes use of foreign trade fairs in promoting awareness of goods.		
2. The company regularly reviews and assesses foreign promotional processes in developing competitive advantage		
3. The company regularly reviews and invests in good quality export promotional material.		

The Company has an effective system for ensuring a high level of customer service	SCORE	EVIDENCE/COMMENTS
1. It regularly reviews and collects customer information of expectations & experience.		
2. It has an effective system for handling, shipping, & export documentation.		
3. It uses the services of freight forwarders and export middlemen.		

The Company is committed to developing exporting/international marketing roles within the Company.	SCORE	EVIDENCE/COMMENTS
1. There is a strong emphasis on management development.		
2. Staff are trained in relevant skills.		
3. They employ graduates and professionally qualified managers.		

There is a well defined planning process which is shared within the Company.	SCORE	EVIDENCE/COMMENTS
1. International objectives are well defined and disseminated throughout the firm.		
2. Critical success factors are identified and understood with respect to international markets.		
3. The distinctive competencies of the firm are identified and understood with respect to international markets.		

The commitment to international development was shared throughout the Company.	SCORE	EVIDENCE/COMMENTS
1. International objectives are well defined and disseminated throughout the firm.		
2. Critical success factors are identified and understood with respect to international markets.		
3. The distinctive competencies of the firm are identified and understood with respect to international markets.		

The Company top management display a commitment and enthusiasm to developing internationally.	SCORE	EVIDENCE/COMMENTS
1. Top management gives a true 'time' commitment to exporting.		
2. Creative and innovative behaviour with regard to international markets is consistently encouraged and resourced.		
3. There is a clear ratio between commitment of resources and contribution to profit of export markets.		
The Company invests regularly in export related activities.	SCORE	EVIDENCE/COMMENTS

1. The company commits resources to export related activities.		
2. The company employs a number of dedicated export staff.		
3. Exporting marketing is central within the company's organisation structure.		

9. CONCLUSIONS

Do you have any comments on any of the issues discussed today?

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IS THE RESPONDENT HAPPY FOR QUOTATIONS TO BE USED IN ANY PUBLISHED RESEARCH (UNDER A PSEUDONYM)

YES ☐ NO ☐

WOULD THE FIRM BE WILLING TO CO-OPERATE IN A FURTHER LONGITUDINAL STUDY

YES ☐ NO ☐

APPENDIX III: CRITICAL INCIDENT FORM

FORM FOR MAKING NOTES OF IMPORTANT INCIDENTS / EVENTS IN EXPORT MARKETS

Company Name: ....
Contact: ....

Please describe a specific event / incident that took place that you consider to be a good example of an incident important to the development of your international portfolio. Please indicate if the incident you are describing is: (a) atyptical event; (b) exceptional event (c) negative event.
Please describe the situation in which the event / incident took place (location, time, people involved)
Please describe any relevant events which led up to the incident
Please describe the consequences and any subsequent developments resulting from the event
Please include any other information you think may be of interest
Thank you for your help. Please keep this form with you to be used as a basis for discussion for our next meeting. Isobel Doole, Sheffield Hallam University, Tel: 0114 225 4461

APPENDIX IV: CONTACT SUMMARY FORM

CONTACT SUMMARY FORM Firm Person Interviewed Date Location
Identify the main themes discussed
What were the main issues discussed and developed
What stories / events did the interviewee view as central to today's discussion
What new insights / hunches arose from the discussions
Questions / issues / events to be followed up in the next interview