

Production-Oriented Internationalisation: Strategic implications for traditional SMEs

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Abstract

In the last 15 years, several Traditional SMEs internationalised their production in low-cost countries where they did not have previous selling presence. This paper aims at drawing research attention to this internationalisation model that we call Production-Oriented Internationalisation of SMEs.

Firstly, we show that existing theories do not explain Production-Oriented Internationalisation of Traditional SMEs. Subsequently, we propose a framework to direct the research on this issue. We focused the research on both the changes that are stimulated by this kind of internationalisation and on the consequent impact on SMEs competitiveness. Finally, we present a case-study.

The empirical analysis is definitely a preliminary one and deserves a more thorough investigation. However, it suggests that the Production-Oriented Internationalisation is a phenomenon with both complex and potentially positive implications. The fact that several Traditional SMEs may undertake such a kind of internationalisation process makes this Production-Oriented Internationalisation of significant practical relevance.

Key words: Internationalisation, SMEs, strategy, changes, resources, production

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Introduction

Thanks to the rapid changes that have occurred during last decades, quite every company or enterprise is affected at least by some kind of international challenge. International sales and marketing, joint ventures, international cooperation, foreign direct investments are just some samples of the possibilities and the challenges that a company is facing. Year after year increasing percentage of foreign direct investments and international trade confirms this.

It is generally agreed that the increasing international involvement and the globalization trends are due to three forces (Ruzzier, Hisrich and Antoncic 2006). First, the technological improvement let both the transport cheaper, quicker and safer and the communication better and worldwide. Second, the reduction of trade barriers allowed to commercialise worldwide and to establish new factories in different countries. Third, the reduction of political barriers allowed the companies to access and/or to operate easier in new markets.

At the beginning, almost only big Multinational Companies (MNCs) were trading and investing internationally. Latter, it became possible also for the Small – Medium Enterprises (SMEs) so that more than a quarter of the world's SMEs derive greater than 10% of their revenues from foreign sources (OECD 1997, Shrader, Oviatt and McDougall 2000). As outlined by OECD (1997), even in the international trade and investments their participation is relevant and growing, year after year. Currently, SMEs account for about 25% of exports in most industrialized nations. For some of

them it seems that internationalising the activities is not just an opportunity but a must in order to grow or even just survive.

This SMEs' internationalisation process merits great attention given the high and increasing relevance of SMEs in the worldwide economic systems. SMEs account for over 95% of businesses, create roughly 50% of total value added worldwide and, depending on the country, generate between 60% and 90% of all new jobs (OECD 1997, Knight 2001).

The attention to this phenomenon requires specific investigation since it is not possible to transfer straightforward what we learned on the big multinational companies to the SMEs. Actually, the differences between big companies and SMEs are numerous and not negligible (McDougall, Shane and Oviatt 1994; Knight 2001; Brouthers and Nakos 2003; Vachani 2005; Trautmann, Turkulainen and Hartmann 2007). Just to mention some: SMEs have less political power, MNCs organisationally structured is more explicit, MNCs management experience is wider and greater, SMEs have a bigger flexibility, SMEs have fewer resources. These differences make the internationalisation processes of SMEs different in several aspects from that one of the MNCs.

The goal of the present research consists in (i) describing the Production-Oriented Internationalisation (POI) process of a SME, (ii) defining the internal changes occurred during the POI process and (iii) in understanding whether and how these changes brought resources or capabilities able to constitute the base for future sustainable competitive advantage.

In the first section, we present the literature review where as, in the second one, we propose the research framework. Subsequently, we describe the adopted methodology; in the following three sections, we present and analyse a case of

Production-Oriented Internationalisation of a SME. Finally, we conclude by presenting research limits and implications for the future research.

1. Literature review

The internationalisation has been widely studied by many researchers. We can distinguish two main streams: MNC internationalisation and SME internationalisation.

The studies about MNC internationalisation began during '50s (Ruzzier, Hisrich and Antoncic 2006) and several theories have been presented to explain why firms engage in international operations (Westhead, Wright and Ucbasaran 2001) such as: Product cycle theory (Vernon 1966), Monopolistic advantage theory (Hymer 1976), Internationalization theory (Buckley and Casson 1976, 1993), Transaction cost theory (Williamson 1975, Gilroy 1993), Eclectic theory (Dunning 1988), etc.

The research on SMEs internationalisation started in the early '70s in the Nordic countries and produced stage models. The main output had been the Uppsala model (U-model) (Johanson and Vahlne 1977, 1990, 2003). Johanson and Vahlne (1977)'s U-model describes the SMEs internationalisation process as "a gradual acquisition, integration and use of knowledge about foreign markets and operations and a ... successively increasing commitment to foreign markets" (Gankema, Snuiff and Zwart 2000). In this dynamic model, internationalisation of the firm is seen as a process of increasing a company's international involvement as a result of different types of learning. (Ruzzier, Hisrich and Antoncic 2006)

Another stage model developed in those years is Innovation-related Internationalization Model (I-model) (Cavusgil 1980, Gankema, Snuiff and Zwart 2000). "The term "innovation-related" is derived from the work of Rogers (1962,

cited in Gankema et al., 2000), in which each subsequent stage of internationalisation is considered as an innovation for the firm (Gankema et al., 2000). Their focus is exclusively on the export development process, in particular of small and medium-sized firms” (Ruzzier, Hisrich and Antoncic 2006).

Both U-model and I-model assume that internationalisation process starts with sporadic overseas sales and continues with bigger and bigger commitments in the foreign markets through sales. The start up of overseas production unit is seen as eventually the last stage.

Stage models were increasingly challenged by empirical findings that some SMEs are able to internationalise more rapidly than the models predict (Oviatt and McDougall 1994, 2005). As a result, a new subfield in International Business emerged: “International entrepreneurship” (McDougall and Oviatt 2000, Peng 2001). It outlines that knowledge-intensive and knowledge-based firms are likely to have an accelerated internationalisation focusing their attention particularly upon International New Ventures (INV), ‘Born global’ or ‘Born-again global’ firms (Bell, McNaughton, Young and Crick 2003).

Previous research brought considerable contribution to understand the SMEs’ internationalisation phenomena; nevertheless, there is a mismatch between what can be observed and what the literature tells, i.e. the ‘Traditional’ SMEs’ internationalisation process is supposed to follow the Uppsala or Innovation models, where as several Traditional SMEs followed a different internationalisation process. Therefore there is a research gap (Fig. 1). Christensen (2003) highlighted that “upstream studies and studies of reproductive entrepreneurs as well as studies of entrepreneurial process embedded in the internationalisation process itself” have been somehow neglected by the research community.

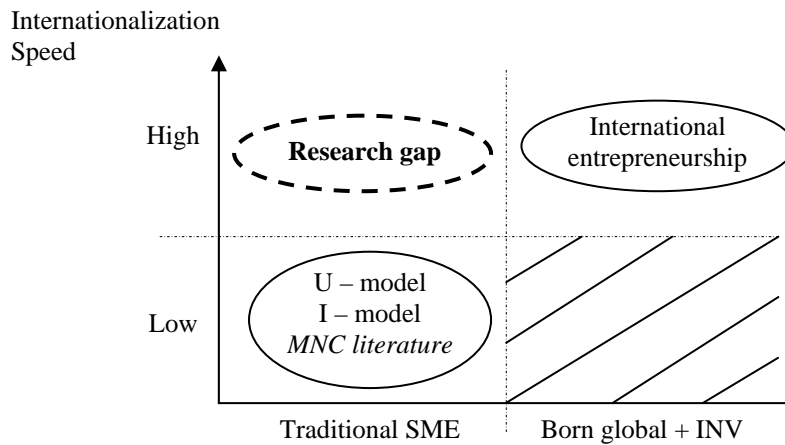


Fig. 1: SMEs internationalisation literature: the research gap

Besides, Nummela, Loane and Bell (2006) stress that “it remains unclear how the key business operations change during internationalisation, and what kind of resources and skills – on both the organisational and the individual level – are needed to manage the internationalisation process successfully”. Here they define change as “the difference in form, quality or state in an organisation over a selected time period (see Van de Ven and Poole, 1995, p. 512)”. For what concerns firm resources Barney (1991), citing Daft (1983) says that they “include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc; controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness.”

To design an ad hoc research we developed a research framework, as illustrated in the following section.

2. Research framework

The peculiar internationalisation process emerged in North-eastern Italy during ‘90s and 2000s when many traditional SMEs internationalised rapidly their operations

(mainly to Central and Eastern Europe but also to North Africa, South America and Far East). Before presenting the research framework, we define here ‘Traditional SMEs’ as *manufacturing enterprises that are not knowledge-intensive or knowledge-based firms, they are not International new ventures or Born-global or Born-again global. The total number of employees is less than 250 units.*

Consequently to the preliminary research we developed a research framework as it is shown in the Fig. 3.

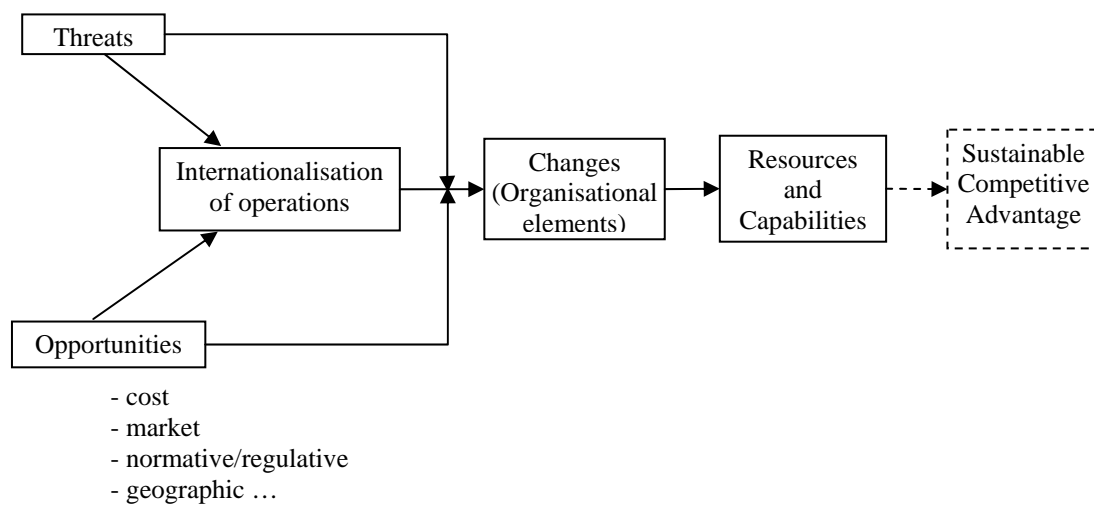


Fig. 3: Research framework

At the beginning there is a Traditional SME. Accordingly to the external (cost, market, normative and/or regulative, geographic, etc.) opportunities/threats the management/entrepreneur starts performing the Internationalization of operations. This work does not deal with the opportunities/threats but we are aware that they exist. The influence of Opportunities and Threats continues afterwards.

SMEs that follow this process start owning, controlling or being in joint venture of production units outside the original country without having any relevant trade agreement in those incoming countries or regions. Thus, these SMEs internationalize rapidly their operations without a gradual knowledge acquisition

process before moving the operations, without international manager experience before, without changes in management structure that drove the internationalization, without internationalization support from customer and with limited network connections.

The process of internationalization, usually, induces some changes inside the organisational elements of the Traditional SME. For example, there is a formalisation process of the tacit knowledge; the strategic choices become more international oriented; the managers' duties and responsibilities are more precisely defined.

These changes lead to the modification of some resources/capabilities or to the creation on new ones. From the preliminary research we received inputs that indicate that traditional SMEs, while internationalising operations, improve some their capabilities. Finally, it is supposed that the improved capabilities are able to constitute the base for future sustainable competitive advantage to the Traditional SMEs that have internationalized their operations.

We called the internationalization process above described as Production-Oriented Internationalization (POI). Considering the Research framework the present research aimed at (i) describing the POI process; (ii) identifying which are the changes induced by the POI process and (iii) understanding whether and how the POI process have developed any resources/capabilities able to constitute the base for future competitive advantage.

3. Methodology

To answer the above mentioned research questions we performed a case study. Other contribution in the field adopted the same method when they had to investigate the how and why of barely investigated issues (e.g. Oviatt and McDougall 1995; Bell,

McNaughton, Young, and Crick 2003). Case study research method has a high exploratory power and allows dynamic processes to be more deeply investigated (Eisenhardt 1989; Yin 1989). In particular, the case-based methodology reveals itself particularly useful in those research contexts where previous theory seems to be inadequate or incomplete and thus new theory development is required. This is our case since stages models and international entrepreneurship does not seem capable to explain the consequences of a production-oriented internationalisation. The case study presented here comes out from a preliminary study where we interviewed 20 key informants expert on the internationalisation processes of SMEs, performed 6 case studies and assisted some SMEs during their internationalization process. We chose this specific enterprise as we believe it is among the most representative cases. The preliminary study was conducted in order to understand whether this particular internationalisation process could have a positive impact on SMEs and whether it could be followed by a consistent number of SMEs.

The notion of sustained competitive advantage as study object requires particular attention to be given to the research design because of the longitudinal perspective needed (Barney, Wright and Ketchen 2001). Besides, when the focus is on change processes, longitudinal research is recommended as it permits the identification and observation of processes (Nummela, Loane and Bell 2006). For this reason, this study takes a retrospective perspective; i.e. we do not observe in various point of time the internationalisation process coming back to the company from time to time, on the contrary we ask the company informants to tell us what happened starting from a time precedent to the start of internationalisation

A Traditional SME from North-east Italy was identified. It belongs to mechanical industry. We chose North-east Italy as in this region there is a high

concentration of Traditional SMEs and a relevant number of them internationalised their operations. The mechanical industry is one of the most important in the selected region. In the company, we interviewed two Chief Executive Officers (CEO) which cover respectively the additional roles of purchase manager and production manager. We developed a semi-opened questionnaire and we tested it in preliminary interviews with 10 key informants expert on the internationalisation processes of SMEs. These instruments contained a number of structured questions designed to gather data for classification purpose (firm size, age, export experience, export ratio, first export market/s, current market/s, etc.). In addition, a series of open-ended questions were used to probe the strategic directions of firm and underlying reasons for key internationalisation decisions and changes. The information obtained through interviews was triangulated with company's balance sheet, written reports and web site. After that, we went back to the interviewees in order to complete the missing information and to check some data.

4. Firm A and the Internationalisation process

Firm A designs, manufactures and sales worldwide a wide range of devices (compressors) that produces pressure. The Company was founded in 1992 by 4 experts in the field: they are still active in the company and cover the role of CEO. The Company started selling abroad in 1995 in the Western Europe. The expansion on the European market was quite rapid and in 1998 established a 50% owned trading company in Romania. After, they started selling worldwide in Australia, South Korea, Venezuela through a network of dealers able to provide an after-sale service. In 2001 they started the POI process; than the turnover was about 9 millions euros, they had 45 employees and the share of the national market was about 60 percent. Today the

turnover is about 14 millions euros, they have 55 employees in Italy and 20 abroad and the share of the national market is about 40 percent.

	1992	2001	2007
Employees	4	45	55 home + 20 abroad
Turnover	0	9 Mil. €	14 Mil. €
Export	0%	40%	60%

Table 1: Company growth

The internationalisation of production took place quite late in comparison with other small-medium mechanical companies. In 2001 the company went in Bosnia to identify an opportunity to distribute its products in the former Yugoslav area. Before 2001 firm A did not have any trade agreement in Bosnia and its presence in the former Yugoslav Republics was very negligible. During 2001 Firm A met a small local trading company that was already selling the compressors in Bosnia and Serbia. Firm A perceived this company very trustable and considered the idea of producing locally to deal locally. The presence in the local markets was the main reason for which firm A decided to set up there, even though the low labour cost was a nice advantage. Thus, Firm A founded in 2002 in Bosnia a new company (owned at 50%), having a limited knowledge of the local market. The number of employees was less than 10 units and it remained invariable. The scope of the new company consists in assembling the kits of compressors sent by Firm A, selling the compressors in the local and neighbour markets and providing the after-sell service. At the beginning, Firm A trained Bosnian employees to assemble the simplest compressors, after 3-4 years they transferred the know-how in assembling other more complex compressors but still belonging to low technological segment. The training was performed both in

Italy through a short 2 week visit of Bosnian workers both in Bosnia through 2 days visits of Italian managers and workers.

After this first POI step, the Firm A's internationalisation process continued. During 2006, they established 50% owned company in Brazil with about 5 employees which assembly the air compressors for the Brazilian market; today there are more than 10 employees. At the moment (2008) they are establishing another company in Poland following similar strategies.

5. Changes and Organisational implications

During the POI and consequently to it, Firm A performed a number of internal changes. We identified these changes and highlighted the modifications that they have brought into the various organisational elements. The organisational elements considered are adapted from Waterman, Peters and Philips (1980) 7-S framework. The 7-S framework is a model that describes 7 factors to organise a company in an holistic and effective way. As the authors claim, "the effective organisational change is really the relationship between" structure, strategy, systems, style, staff, organisational capabilities and shared values[†] (Bernardi 1989). Hereinafter, we provide a brief definition of the 7 factors. Strategy is the direction and scope of the company over the long term. Structure is the basic organization of the company, its departments, reporting lines, areas of expertise, and responsibility (and how they inter-relate).

[†] In their paper, Waterman, Peters and Philips (1980) called 'organisational capability' as 'skills' and 'shared values' as 'superordinate goals'. We preferred the term 'organisational capability' as 'skills' can be confused between individual level and organisational level. We preferred the term 'shared values' as we consider that it is more suitable than 'superordinate goals' to the definition as it was given by the authors: "guiding concepts – a set of values and aspirations, often unwritten, that goes beyond the conventional formal statement of corporate objective."

Systems are formal and informal procedures that govern everyday activity, covering everything from management information systems, through to the systems at the point of contact with the customer (retail systems, call centre systems, online systems, etc). Organisational capabilities are the capabilities and competencies that exist within the company. What it does best. Shared values are the values and beliefs of the company. Ultimately they guide employees towards 'valued' behaviour. Staff are the company's people resources and how they are developed, trained and motivated. Style is the leadership approach of top management and the company's overall operating approach.[‡]

We found 18 different changes. Hereinafter, we describe each change and which organisational element is influenced by it. Some changes influenced more than one element and we are aware that some can be seen from different points of view.

1. Formalisation

The assembling of many products is performed in the foreign subsidiaries with the workers that do not speak Italian. Thus, it was necessary to produce more precise, more detailed and simpler schemes of the compressors and assembling instructions. It was, also, necessary to make out a more complete list of spare parts. Furthermore, this formalization had to be anticipated to make available all the mentioned documents before the assembling process could start. The formalisation influenced organisational capabilities (more formalisation and more precise) and shared values (developing anticipating culture).

[‡] These definitions are adapted from:

2. Assembling process

The preparation of the assembling process was re-designed, preparing in advance the spare parts and the assembling kits to ship to the foreign subsidiaries. This was made in order to ensure more efficiency and a higher quality assembling with less experienced workers. The changes in the assembling process influenced shared values (developing anticipating culture).

3. Personnel

When they started working in Bosnia there was the problem to communicate as the Bosnians could not speak Italian and Italians could not speak Bosnian (or Serbo-Croatian). So, Firm A decided to hire a Serbo-Croatian mother tongue person that was living in Italy as switchboard operator. They hired another worker as the production increased. Firm A hired and changed some people in the Sales and Design units. When changing people they substituted with higher skilled people. Also the manager of the Production unit was substituted by a higher skilled manager. These substitutions are due both to the POI and to the growth of the firm and the distinction is difficult. Hiring influenced staff (more units with more individual skills), organisational capabilities (units with more skills) and structure (strengthening of technostructure).

4. 3D technology

The POI process accelerated the shifting from 2D to the 3D drawing of technical schemes. The CEO estimated that the internationalisation of production pushed them to anticipate of 2-3 years the systematic use of 3D. They started using more systematically the 3D drawing as the assembling instructions and schemes had to be more precise, simpler and more detailed as mentioned before. They took advantage of the skills improvement and began also to project in 3D. Soon, the sellers

used 3D schemes during the negotiation. 3D technology influenced systems (systematic use of 3D drawing) and organisational capabilities (cross-functional use of 3D drawing).

5. Communication technology

Brazilian subsidiary's Production unit is not expert as the Italian one. Brazilians need several and constant technical help. In order to improve the communication between the two production units, the workers were supplied with webcams. Thus, they can communicate live both with voice and video, they can solve some problems without involving managers and, in this way, they improve the cooperation between different plants. Communication technology influenced systems (simplified communication system) and shared values (bigger cooperation between workers, including low skilled ones, in different plants).

6. Awareness

After performing the first POI in Bosnia, Firm A became aware of the fact that they can do it. This increased their self-confidence and opened the possibility to re-do it somewhere else in the world. The increased awareness influenced shared values (at the beginning not everybody was convinced that POI could work) and strategy (the strategy has been re-defined opening to the possibility to perform more POI).

7. Entrepreneurs mentality

When the CEO established the Company, the business horizon was the province, with the aim to grow step by step throughout the region and, consequently, the whole country, basing their expansion on sales. Now, after the internationalisation of sales, after the POI and together with the world globalization process, they changed their mind. If they have to establish a new company today, they would plan it as Born Global, organising it immediately ready for the production and sales

internationalisation. The change in the entrepreneurs' mentality influenced shared values (the Firm A, its management, is more global oriented).

8. Workers mentality

When the CEO decided to internationalise the operations in Bosnia, a part of the workers was afraid that they would lose their job as the whole production would be transferred abroad. But this did not happen; vice versa, the production increased (they had to produce and prepare the spare parts also for the Bosnian subsidiary) and, consequently, increased the number of people both in the Production unit and in the other units. Thus, the workers increased open-mindedness lowering the suspicion towards POI. In general, we can say that there is a lower suspicion of change. The different workers mentality influenced shared values (lower suspicion of change).

9. Production unit's job

Before starting the POI, the duty of the Production unit consisted in producing the spare parts and assembling the compressors. After establishing a company in Bosnia, the Italian Production unit, the Italian workers have to train from time to time the Bosnian workers. After establishing the Brazilian Company, the Italian workers assist via webcam the Brazilians. Meanwhile assisting the Italian Production Manager can also control the activity of the Brazilian subsidiary. Today, they produce, assemble, train, assist and control. This influenced structure (more lateral relations between different production units and additional tasks assigned to the Italian Production unit), organisational capabilities (Production unit with more competencies) and systems (different control management, using, also, web technology).

10. Sourcing

Nowadays, it is important for a company to find resources worldwide, where the cost is lower. Even SMEs started having international purchasing but for a SME it

is difficult to perform a real sourcing in foreign countries as it involves an effective presence in those countries. It can be too costly or it requires human capital (international purchase managers) that a SME do not have. Firm A, having established production and sales units abroad can purchase efficiently and effectively raw material and spare parts in those countries. In this way, also specific spare parts for the country-specific products (due to different regulations) are purchased in the local market simplifying the fluxes of materials. The differentiated part is managed locally. The multinational sourcing influenced strategy (multinational purchase strategy), structure (spread purchase units) and systems (reduction of fluxes complexity).

11. Designing

Producing in a specific country, the compressors have to follow the local regulations but they have to be adapted also to the local climatic environment (for example, in Brazil there is a relevant humidity and higher average temperature). Having a production and sales subsidiary, in those countries Firm A sales a relevant quantity of compressors. For both reasons it is necessary and/or worthy to re-design slightly the compressors for those markets. If the difference contributes to an improvement of the compressors or if the cost of the change is negligible than this change will be brought to all the products. In this way, there is a slowing down of the variety proliferation (standardisation of spare parts) and an increasing quality with more global products. The multinational designing influenced strategy (mass customization), systems (cross plant design) and organisational capability (multinational design).

12. Regulations knowledge

Producing in a specific country, the compressors have to follow the local regulations. Being in contact with the local designers and technicians there is an improvement of

the knowledge of the local regulations and how to implement them. This influenced organisational capabilities (more regulations knowledge).

13. Market knowledge

When producing industrial machines in a country it is easier to sell in that country as the company is closer to the clients, the clients feel product more as national, the possibility of after-sell assistance is greater, etc. Selling more products, the Firm A achieves more knowledge of the local market and the regional market. This influenced organisational capability (more market knowledge).

14. Market and business analysis

When establishing a production and sales unit abroad the financial, time and human resources investments for a SME are notable. Before starting it is necessary to perform a scrupulous market and business analysis. Firm A improved its analysis methods. The improvement influenced organisational capability (improvement of analysis methods) and systems (data collection).

15. Relationship managers-workers

When the CEO decided to internationalise the operations in Bosnia, a part of the workers was suspicious of the managers, believing that they would transfer the whole production abroad and, thus, the workers would lose their job. But, this did not happen; vice versa, the production increased and, consequently, increased the number of people both in the Production unit and in the other units. Thus, the relationship between managers and workers improved, the workers began to have more understanding for the managers' decisions. After establishing the company in Bosnia, it was necessary for the Italian workers and managers to visit Bosnian subsidiary to train and assist local workers. During business trips the internal barriers between managers and workers were broken and the mutual knowledge improved. The change

in relationship influenced style (how management and workers relate to each-other and organisational climate).

16. Production planning

Having more production units in different places the company system becomes wider and more complicated. Geographical distance and the involvement of an increased number of Sales, Logistics and Production units in the order acquisition and fulfilment process tend to extend the operational times. But delivery times in any market of the company can not be extended in order to maintain the competitiveness. In order to respond to this threat, Firm A changed the purchase planning, extending the covered period, and developed the control of work in progress. These changes influenced systems (production planning and control) and shared values (developing anticipating culture).

17. Branding

Having different plants across the world gives the possibility to present the company in a different way. Now, Firm A appears as bigger, as a company that is capable to face problems in different situations and as a company that can guarantee a continuous service in those countries where it is present with production units. The new branding influenced strategy (a more capable, global and flexible company).

18. Strategic planning

Having the production abroad implies more problems and more complexity. Thus, Firm A started reviewing strategies more frequently. They adjust the direction more in advance. The higher frequency of strategic planning influenced strategy (a bigger scope of strategic possibilities) and shared values (developing anticipating culture).

In the following table, we give a brief summary of each organisational element and the changes that influenced it.

Changes		Organisational element
<u>1. Formalisation</u>	<u>11. Designing</u>	Organisational capability
<u>3. Personnel</u>	<u>12. Regulations knowledge</u>	
<u>4. 3D technology</u>	<u>13. Market knowledge</u>	
<u>9. Production unit's job</u>	<u>14. Market and business analysis</u>	
<u>1. Formalisation</u>	<u>7. Entrepreneurs mentality</u>	Shared values
<u>2. Assembling process</u>	<u>8. Workers mentality</u>	
<u>5. Communication technology</u>	<u>16. Production planning</u>	
<u>6. Awareness</u>	<u>18. Strategic planning</u>	
<u>4. 3D technology</u>	<u>11. Designing</u>	Systems
<u>5. Communication technology</u>	<u>14. Market and business analysis</u>	
<u>9. Production unit's job</u>	<u>16. Production planning</u>	
<u>10. Sourcing</u>		
<u>6. Awareness</u>	<u>17. Branding</u>	Strategy
<u>10. Sourcing</u>	<u>18. Strategic planning</u>	
<u>11. Designing</u>		
<u>3. Personnel</u>	<u>10. Sourcing</u>	Structure
<u>9. Production unit's job</u>		
<u>3. Personnel</u>		Staff
<u>15. Relationship managers-workers</u>		Style

Table 2: Organisational elements and changes

We can realise from Table 2 that changes are really numerous, but it is important to stress that the importance of different changes is not the same. Some changes or group of them can vary the state of some resources/capabilities or, even, create some new resources/capabilities. In the following section, we identify the

resources/capabilities improved or developed by Firm A consequently to POI, that can potentially constitute the base for the achievement of Sustainable Competitive Advantages (SCA).

6. Development of resources/capabilities

Analysing the changes and considering the firm's growth (see Table 1) we found that consequently to the POI Firm A developed a number of resources/capabilities. Hereinafter, we provide a description of 7 of them, trying to put in evidence the effects on Firms A's competitiveness.

a) Awareness of POI possibility

Today, it is widely recognised that competing in the industrial equipment market requires an effective presence in the local markets, especially with after-sell service. For a SME, financial, time and human resources investments are notable when they establish owned trading companies able to provide after-sale service. After performing the first POI, Firm A's managers became aware of the fact that they are able to produce, sell and provide after-sell service efficiently and effectively both in Italy and in a foreign country. In this way, a strategic option is opened that answers to a necessity that is emerging. They re-designed the strategy including the possibility to perform more POI in different counties. Firm A regains competitiveness through a presence on a foreign market keeping the typical flexibility of a SME.

b) International production flexibility

Firm A, selling and producing compressors in different countries, is forced to adapt them to the specific market regulations and the local climatic environment. On one side, Firm A purchases in the local market specific spare parts for the country-specific products (due to different regulations). The differentiated part is managed

locally avoiding the intersection of the fluxes. The logistics fluxes are, thus, kept simple. On the other side, Firm A re-designs slightly some compressors for those markets: but, when the difference contributes to an improvement of the compressors or if the cost of the change is negligible than they transfer this change to all the products. Through spare parts standardisation, they reduce the variety proliferation of components while providing products tailored to each specific market. Putting together these two aspects, Firm A competes with a higher number of articles, increasing the production but keeping under control the logistics complexity, i.e. maintaining production flexibility.

c) Reduced resistance to change

When a CEO plans to open a new production unit, usually, the workers see it suspiciously. They consider it a threat for their position as their productivity would be compared or, even, they would lose the job. This is particularly stressed when CEO plans to open the new production unit in a low-cost labour country as Bosnia is. Also Firm A's workers were afraid in 2002, but the firm's growth, consequently to the POI, changed their mind. The resistance to change is reduced and, therefore, the organisation is more dynamic and close-knit. Thus, the CEO can take harder strategic decisions.

d) International open-mindedness throughout the Firm

Firm A started exporting in 1995. Its export growth was quite rapid thanks to the contemporary development of a more global CEO vision. In 2002, Firm A established a new company in Bosnia, and, since then, Italian workers meet and train from time to time Bosnian workers both in Italy and in Bosnia. In 2006, Firm A began producing in Brazil, and Italian workers assist daily via webcam the Brazilians. In this way, the Production unit and its workers became more international and global

oriented. As a result, there is an alignment of the shared values to the CEO's strategic vision. Therefore, the problems are not anymore managed on different levels with close, provincial mentality and this is strategically important in a globalized world.

e) Branding strategy: International but flexible

Firm A is present with production, sales and after-sale service in Italy, East Europe and South America. Due to this on the market it appears as bigger, as a company that is capable to face problems in different situations and as a company that can guarantee a continuous service in those countries where it is present with production units. Through new branding, they acquired competitive advantage over small-medium competitors as they guarantee the same flexibility and service but on a multinational level. They acquired competitive advantage over big multinational companies as they guarantee multinational coverage but with a typical flexibility of a SME.

f) Increased vision of future

Usually a company is forced to review its strategy more frequently when environmental complexity and problems increase. Firm A started reviewing strategies more frequently as POI process brought many problems and additional complexity. The higher frequency of strategic planning implies a bigger scope of strategic possibilities and adjusting the direction more in advance. Therefore, CEO increased the vision of future despite the increased level of uncertainties and environmental turbulences. They reduced the risk of being damaged by environmental changes as they increased considerably the capability to manage environmental changes on a global scale.

g) Knowledge, brand and sales virtuous circle

As above mentioned, in the industrial equipment sector it is extremely important to provide after-sell service. Due to financial, time and human resources constraints, Firm A utilized economy of scope and established companies abroad that assemble, sell and provide after-sell service. Producing in a market, the company achieves reliability in that market; achieving reliability, market share grows; a bigger market share implies more contacts and more contacts means greater market knowledge. In this way, the company sells more, therefore produces more and the cycle re-starts. The SCA consists in the virtuous circle that has been formed and that produces, nearly automatically value in terms of knowledge, brand and sales.

The results of analysis indicate that the changes developed several resources/capabilities potentially able to bring sustainable competitive advantages. Considering it together with the number of changes, we can say that the Production-Oriented Internationalisation is a phenomenon with both complex and potentially positive implications.

Conclusions

As recently noticed by Christensen (2003), “up-stream studies and studies of reproductive entrepreneurs as well as studies of entrepreneurial process embedded in the internationalisation process itself” have been somehow neglected by the research community. The purpose of this research is to contribute in filling this gap by addressing some key issues on the agenda regarding the development of the SMEs internationalisation theory.

For what concerns the implications, it seems that Production-Oriented Internationalisation process has some potential to improve the competitive position of

traditional SMEs providing them with resources/capabilities that bring sustainable competitive advantage. We think that adding the POI model to the mainstream theories on SMEs internationalisation developed through the 80's and 90's can bring under the academic community scrutiny a proposal of a specific advancement of this theoretical body, stimulating, thus, the debate on this research topic.

The present research is a very preliminary analysis of the case. It is necessary to perform more in-depth analysis trying to understand better the relations between POI, changes, resources/capabilities and SCA. It is necessary to analyse more cases; firstly, in order to have a possibility to generalize the results, secondly, to compare the results identifying relevant control variables and, thirdly, to check if there are other changes, consequently to POI process, that bring SCA. In order to understand better the achievement of SCA it is necessary to analyse and compare each company studied with the situation of its competitors. Another limitation of the research consists in identification of changes. A retrospective research design is always problematic as the respondents answers can be biased by time perspective and the memory. Besides, it is difficult to separate changes related to POI process from other change happened in the company.

This study is an attempt to respond to increasing criticism of the existing theory of internationalisation offering a novel perspective to SME internationalisation. Additionally, the information can be utilised by policy makers to incentive the internationalisation process of SMEs and by the entrepreneurs that intend expand internationally their activities re-defining the strategy.

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