

The internationalization process of small – to - medium size enterprises (SMEs) in the African context: A comparative study.

By

Bruce Mtigwe

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EXECUTIVE SUMMARY

This thesis is based on a cross-sectional survey design that employed the simple random sampling technique. From an original sample size of 1900 that was split between the South African market (1300) and the Zimbabwean market (600), a total of 494 usable responses were obtained representing a 26% response rate. Several statistical tools were applied to the results that included: cross tabulations, frequencies, correlations, factor analysis and discriminant analysis.

The results showed that in contrast to traditional internationalization theory that suggests that firms internationalize sequentially along an establishment chain, the vast majority of firms (86%) completed their entire internationalization cycle within one foreign market entry mode that was in this case exporting. The two major explanations for this behaviour are that firstly, exporting is preferred as a deliberate strategic option through which small firms can maintain optimum profit-risk levels. Secondly, rigorous exchange control regimes maintained by governments within the Southern African region have traditionally favoured the export-only method of internationalization and consequently many firms have since developed inertia in experimenting with other forms of internationalization.

Within that single mode of exporting, six stages and four developmental patterns were identified. In short, there are complex sub-processes at work within the export-only option and there are different levels of sophistication that offer a firm growth options that enable it to complete its entire internationalization through export. Similar observations were made in respect of other international market entry modes, such as licensing, foreign manufacture and integrated foreign manufacture on a worldwide basis. Mutual dependency among the stages could not be established for most firms in the survey implying that mode entry can be direct. Thus a firm can enter a foreign market via foreign production for example without necessity of having exported before.

Not only do small firms internationalize within a single mode, they do so relatively fast. 72% of the firms internationalized within the first 10 years of their existence and this was attributed to factors such as: the international experience of the key managers in the firm, the perception that domestic economic conditions present a risk to the firm's future earnings, the total lack of a domestic market for the products that are made by some firms, for example certain kinds of software, the desire to take advantage of a product with a relatively short life cycle or a product that is cheap and or easy to market and finally a firm's involvement in project work as a network partner. The results also show that managers in the 31-40 year age group are more likely to internationalize their firms faster than any other age group. The willingness to internationalize fast remains high until the age of 50, but from then on it drops appreciably, however it does not stop altogether.

Furthermore, the evidence presented shows that the internationalization process is pursued independently by small firms in the region in contrast to the European and New Zealand experience that suggests that small firms and in particular those that internationalize fast, do so with the assistance of other firms that are part of its formalized business network. Consistent with traditional internationalization theory, small firms in southern Africa were found to generally fan out from geographically close markets to geographically distant markets. However, unlike in traditional theory, this was not for reasons of psychic proximity but rather for practical economic reasons.

A new internationalization model that details the motivation domain as consisting of specific antecedents, enablers, information sources and precipitators, is presented in this thesis. The barriers, accelerators, selectors and market outcomes that shape the internationalization process are also given. The major limitation of the study was the use of the simple random sampling technique, while the main recommendation centred on the need for policy initiatives that focus on profiling managers and providing targeted assistance as well as formally networking firms for export through the creation of industrial clusters.

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Chapter ONE

INTRODUCTION

1.1 BACKGROUND

For over 50 years international business has been the subject of extensive research enquiry, and yet to date there is no universally accepted model of international business, let alone the same theory of international business (Bilkey, 1978; Toyne, 1989; Leonidou and Katsikeas, 1996 and Chandra and Newbury, 1997). A possible explanation for this is that little research has been directed at theory building and testing but rather to empirical testing of fractional areas of interest resulting in a galaxy of independent or semi-independent models and theories of international business (Anderson, 1993; Dunning, 1989 and Toyne 1989). In addition to the lack of a theory building focus, researchers have attempted to apply to international business, theories from their primary backgrounds. This of course has only served to fragment the research. It is the contention here that new wine must be put in new wineskins otherwise the wineskins will burst. In other words, new frames of reference are needed other than the neo-classical rational economic perspectives that currently dominate the entire study of international business (Simpson and Kujawa, 1974; Calvet, 1981; Johanson and Vahlne, 1977 and Benito and Gripsrud, 1992).

Attempts at explaining the behaviour of international firms using the neo-classical rational economic frames of reference have proved particularly troublesome. The real world of international business is far more complex and

dynamic than that envisaged by these frames of reference. Furthermore, a particular weakness common to virtually all the theories of the internationalization process and international business in general, is their failure to question the fundamental assumptions on which they proceed to develop models. Tversky and Kahneman (1974) argue that many of the basic assumptions accepted as truth are fundamentally flawed and consequently the models on which they are based are fundamentally constrained. This seems to be the case with international business theory development. The theories and models currently present in international business have been subjected to rigorous evaluation and criticism. The major criticisms centre on:

- The simplistic and static nature of the models. It is argued that the numbers of the variables that are considered in most studies on international business are too few to explain such a complex, multi-dimensional and dynamic phenomenon (Ford and Leonidou, 1991; Dalli, 1994; Ramaswamy *et al.*, 1996).
- The defectiveness of the methodological and conceptual frameworks. Sullivan (1994) argues that: *"The absence of a coherent approach to establish the validity of measurement results in empirical investigations that are disjointed and inconclusive, a proliferation of partially tested or untested propositions and a segregation of the theory-building process from the hypothesis testing phase of research. Consequently we are unable to create a cumulative structure of theoretical, derived and empirical concepts that provide purpose to subsequent studies"*

The same author provided an example of how different constructs were used to estimate financial performance in 17 studies, with the result that the conclusions arrived at are unreliable. Bonaccorsi (1992) also noted similar difficulties in his study of firm size and export behaviour. Another frequently noted shortcoming is the small sample sizes and the cross-sectional nature of the studies, when in fact

longitudinal studies would be better suited to enhancing our understanding of international business activities (Andersen, 1993; Crick, 1995; Christensen *et al.*, 1984; Jaffe and Pasternak, 1994 and Dominguez and Sequeira, 1993).

In view of the difficulties encountered with a unifying theory, some have argued for a more interdisciplinary approach Dunning (1989), Buckley (1990), Leonidou and Katsikeas (1996), when perhaps first consolidating existing theories and models as well as refining measurement issues might be more appropriate. In essence then, the fundamental questions that researchers set out to answer 50 years ago have not been answered conclusively. These research questions are:

- Why does internationalization take place? In other words, what are the motivating factors of internationalization?
- When does internationalization take place? Here the question is that of the speed with which the process takes place. At what point in a firm's life does internationalization take place?
- How does internationalization take place? In other words, how do the mechanisms that trigger internationalization operate?
- Is there one best way to internationalize? In other words, does internationalization occur in predefined stages?

New evidence from different parts of the world continues to modify received wisdom on the answers to these questions. Therefore, the answers are being provided piecemeal. These four research questions will be revisited in Chapter 5, the research methodology chapter, where they will be tied to specific hypotheses. The ensuing discussion will focus on a brief review of the literature on international business.

1.2 LITERATURE REVIEW

International business literature falls into three broad categories, which are: International trade theories, foreign direct investment theories and internationalization theories.

1.2.1 INTERNATIONAL TRADE THEORY

This is the oldest stream of international business research. It is firmly rooted in classical trade theory, factor proportion theory and product life cycle theory (Morgan and Katsikeas, 1997). According to classical trade theory, a country will export those goods and services in which it has an economic advantage while importing those that it does not have an economic advantage over (Smith, 1776 and Ricardo, 1817). The factor proportion theory extended the classical trade theory by adding the two aspects of factor endowment and the costs of the factors of production (Hecksher and Ohlin, 1933). Thus, the Hecksher-Ohlin theory postulates that countries will export those goods that make intensive use of those factors of production that are plentiful domestically while importing those goods that make intensive use of those factors which are scarce locally (Hill, 2001).

The validity of both the classical trade theory and the Hecksher-Ohlin theory was questioned particularly by Leontif (1953) resulting in the development of the product life cycle theory. Unlike in previous studies on the subject, in this case the unit of analysis was the firm. The product life cycle theory postulates that a product is manufactured by the parent firm, then by its foreign subsidiaries, before it is produced at any lowest cost location (Vernon, 1966; Wells, 1968). However, the product life cycle theory still failed to explain the specifics of how the process of internationalization takes place. The product life cycle model was viewed as a better alternative to earlier classical and neo-classical trade theories.

However the major weakness that it held in common with the classical group of theories that it sort to improve on, was that it was based on comparative cost theory. International production was assumed to move from comparatively high cost locations to low cost locations. The work of Leontif (1953) however, showed that attempts to explain international trade from a comparative cost perspective were bound to suffer from inconsistencies. He showed that the ratio of capital to labour in the exports of the United States was lower than the capital to labour ratio of competing imports that had replaced American production. The reverse had been expected. This has often been referred to as the Leontif's Paradox.

Clearly there were other more complex factors at play to explain international trade than envisaged in the product life cycle theories. About the same time in the 1960s a parallel stream of research was going on, the foreign direct investment (FDI) theories. Dunning (1995) credits Penrose (1956) and Bye (1958) as having been the pioneers of this school of thought even though their contributions were not "*adequately acknowledged*" at the time. Hymer (1960) is recognised as having been the first to separate portfolio theory from FDI theory in his Doctoral Dissertation (Chandra and Newbury, 1997). According to Hymer (1960) and Kindleberger (1969) market imperfection is the basis of foreign direct investment. This market imperfections viewed later formed the basis of the internalization theory propounded by Buckley and Casson (1976). The theory argues that because of market imperfections, intermediate product markets are difficult to organize and this gives a firm an incentive to internalize the activities performed by these intermediate product markets under common ownership and control. Such internalization of activities across different national boundaries gives rise to a multinational company (Calvet, 1981). An added feature of the internalization theory is the transaction cost economics, which refers to a firm's desire to minimize total costs. Therefore a firm will seek an international organisational form that will minimize total costs to itself (Williamson, 1975; Buckley and Casson 1976; Casson, 1979; Rugman, 1981 and Teece, 1986).

Dunning (1977) advanced the Eclectic paradigm through which he sought to explain international trade theory. According to this paradigm, foreign direct investment will occur if a firm possesses:

- **Ownership-specific advantages**

These are advantages that are specific or exclusive to the firm such as intangible assets, technological resources or product innovations over foreign competitors (Galan *et al.*, 1999). These core competencies will enable an organisation to maintain its competitive advantage (Prahalad and Bettis, 1986; Hamel and Prahalad, 1990).

- **Internalization-specific advantages**

These are the advantages that arise from the extension of the firm's own activities rather than externalizing them through licensing and other contracts with third party firms (Itaki, 1991).

- **Location-specific advantages**

These are advantages that are specific to a particular location owing to its possession of some unique factor of resources not available in the home country (Dunning, 1981).

Therefore, the common features of the schools of thought so far examined are:

- Their classical or neoclassical rational economic perspective (Simpson and Kujawa, 1974; Johanson and Valhe, 1977; Calvet, 1981 and Benito and Gripsrud, 1992). In other words, cost minimization and profit maximization are of central importance.
- Their static nature (Clark *et al.*, 1997). Toyne (1989) notes that: "*A problem with most static microeconomic studies undertaken at the present time is the assumption that what describes behaviour today also describes behaviour in future*".

In essence what these theories of international business have attempted to do is to answer "why" companies go international and have not addressed themselves to the question of "how" this process occurs. This is a question left for internationalization theories.

1.2.2 INTERNATIONALIZATION THEORY

Benito and Gripsrud (1992), Anderson (1993) and Chandra and Newbury (1997) contend that this stream of research draws on the behavioural theory of the firm (Cyert and March, 1963; Aharoni, 1966). Piercy (1981) views internationalization as: the outward movement of a firm's operations. However, Welch and Loustarinen (1988) define it as: "*the process of increasing involvement in international questions*", while Calof and Beamish (1995) define it as: "*the process of adapting a firm's operations (strategy, structure, resource etc.) to international environments*". The former definition more accurately portrays the process, while the two latter definitions presuppose an incremental approach to internationalization, which as shall be argued later, has some considerable limitations. Therefore a new and more appropriate definition of the internationalization process is presented in chapter 6.

Research on firm internationalization falls into two broad classifications and these are: The "*establishment chain*" school also variously referred to as the Uppsala-models, (U-models), the Nordic school or "*incrementalists*". The second category of research is the innovation-related models, (I-models). Both these streams of research are examined in more detail in chapter three.

1.3 RESEARCH JUSTIFICATION

Research in international business has moved from classical thinking in which the nation was the unit of analysis, to the firm as the unit of analysis under multinational enterprise theory, and more recently to networks as the unit of analysis. Toyne (1989) and Blankenburg *et al.* (1996) have argued that the use of the firm as the unit of analysis is precisely the reason why it has not been possible to arrive at an integrative conceptual framework of international business, because such analyses have generally excluded the socio-political landscape in which commercial exchanges take place, as well as power relationships, entrepreneurship, government fiat (tariffs and non-tariff barriers), market conditions and changing preferences, corporate information management among other things (Toyne, 1989).

Admittedly building a conceptual model that takes into account all these dynamic ingredients would not only be impossible for any single researcher but would also make the subsequent model simply too complex for any practical application. However, from a theory-building point of view some level of construct integration and model integration as well some level of abstraction is necessary to arrive at an integrative conceptual framework which is more congruent to the operational level.

Thus far, foreign direct investment theory, transaction cost economic theory, behavioural theory, organisational learning theory, resource dependency theory, game theory, network theory, trade theory and internationalization theory have all made significant contributions to the study of international business but not one of them in its own right has been able to provide an adequate, theoretically and practically sound explanation of firm internationalization. It stands to reason then that the integrated whole will be greater than the sum of its parts. Therefore there

is necessity for the development of an internationalization framework that integrates the different international business approaches into a somewhat unified whole. While several researchers, principally, Dunning (1989), Toyne (1989) and Buckley (1990) and to some extent Andersen (1993), have argued for just such a framework, it has not been forthcoming. This research therefore seeks to build an integrative theoretical framework on the internationalization of small businesses. Particular attention is paid to the theoretical considerations proposed by Andersen (1993), such as for clarifying concepts and variables for scientific theory building, as well as the measurement issues raised by Sullivan (1994) and Ramaswamy *et al.* (1996).

The second part of this work involves extending the current theoretical boundaries that rest exclusively on structured, rational economic positivistic assumptions. Current internationalization research has completely ignored the proposition, supported by growing evidence, that the internationalization process is often an irrational process (Lee and Brasch, 1978; Bonaccorsi, 1992). In this process chance events may exert considerable influence and therefore probability measures may have a role to play, probably greater than the traditionally applied regression equations and formulas.

The research not only introduces a new dynamic and integrative conceptual framework on small business internationalization, but it goes further to introduce new frames of reference and enter previously uncharted theoretical territory. In its complete form, the work represents the state of the art thinking in the field and forms the basis of further theoretical enquiry and government export policy development initiatives, which currently rest on very shaky theoretical ground. The thesis traces the development of internationalization theory from its very early forms to its present day form and for this reason, old models and references on which previous research is based are frequently used throughout the thesis and complemented with newer sources and models wherever possible to give the reader a holistic view of internationalization theory.

1.4 DEFINITION OF THE RESEARCH PROBLEM

The internationalization process of small to medium size enterprises in Africa has not been researched in any significant depth, except for a few works that focus on the contextual setting of export activities and small firm entrepreneurship in a more general sense (Viviers *et al.*, 1996; Viviers and Calof 1999; Kiggundu, 2002). Little is known about what transforms a non-exporting firm into an exporter and even less is known about what processes are followed by small firms on the internationalization path and whether or not it is possible to group firms based on their internationalization behaviour for policy-making purposes. The result is that policy measures that are applied to small and medium sized firms particularly as they relate to the motivation and support of export behaviour are based on foreign, mainly European models of firm internationalization that may be of questionable relevance to the African context. In order to gain deeper insight into how the process of internationalization operates in Southern African small and medium sized firms the following hypotheses are generated and tested:

Hypothesis 1: Firms that internationalize rapidly are those that attach less importance to internationalization.

Hypothesis 2: The “*windows of opportunity*” through which a firm internationalizes are constantly opening and closing alternately, leading to uncertainty on a firm's market entry mode.

Hypothesis 3: Single stage internationalization is more prevalent than multi-stage internationalization in small to medium sized firms.

Hypothesis 4: All firms have an intra-stage establishment chain regardless of their route to internationalization.

Hypothesis 5: Personal networks are the single most important motivator of internationalization.

Hypothesis 6: Firms that internationalize through networks do so at higher levels of market entry than those that do not.

Hypothesis 7: Triggers of internationalization consists of two sets which feedback into each other.

Hypothesis 8: Once the decision to internationalize has been made by a firm, intervening barriers can only slow the process but not stop it.

Hypothesis 9: Probability theory best explains the course of action that will be taken by a firm in its intra-stage and post-stage development.

These hypotheses are elaborated on in chapter 5 where the rationale for each hypothesis is given.

Previous internationalization research has focused on the following aspects: firstly, on the initiating mechanisms (Simmonds and Smith, 1968; Pinney, 1970; Hirsch and Lev, 1971; Simpson and Kujawa, 1974; Bilkey and Tesar, 1975; Kaynak and Stevenson, 1982; Diamantopoulos and Schlegelmilch, 1990; Reuber and Fischer, 1997). Secondly, on the process elements (Johanson and Wiedersheim-Paul, 1975; Johanson and Valhne, 1977; Cavusgil, 1984; Hakam *et al.*, 1993; Eriksson *et al.*, 1997), and finally, on network approaches which are also process-based (Johanson and Mattsson, 1988; Oviatt and McDougall, 1994; Bell, 1995; Coviello and Munro, 1995; 1997). However, received literature on the initiating mechanisms fails to present a consolidated view of all the mechanisms and the relationships amongst themselves and with other process elements. Consequently, only an incomplete picture of the initiating mechanisms exists.

Furthermore, almost all research relating to initiating mechanisms focuses exclusively on these mechanisms as they relate to the firm in its domestic market without any regard to the foreign markets. Little is said about intra-market development and the initiating mechanisms there and how they feed back to the original initiating mechanisms in the domestic market (Andersen, 1993). Again relatively little research has been devoted to analysing the speed with which the process progresses in different contexts. There is reason to believe that the process speed is an important variable that should be considered if the

theoretical level is to be congruent with the operational level. Therefore it is expected that the speed with which the process takes place, will have a bearing on the overall format of a firm's internationalization.

The question might well be asked is: *“why is it important to know about the process of small firm internationalization? Of what relevance or benefit is it to anybody?”*

Small firms make up between 75-99% of all businesses in most economies and consequently they are major contributors to any nation's gross domestic product, employment and general economic and social well-being (Prefontaine and Bourgault, 2002). It is also generally accepted that the possibilities for small firm growth on the domestic market are often limited due to competitive pressures and adverse economic cycles, unfavourable policy measures whether intentional or not, all of which mean that the best way ensuring future viability is through international growth. In the Southern African context and perhaps in other developing regions of the world also, there is an added incentive to undertaking international business which is that firms are then able to have access to hard currency to further their business interests while governments on the other hand also benefit from the flow of hard currencies into the treasury for use in meeting their needs.

Therefore international business is in everybody's interest and an understanding of how the internationalization process works within a local context is an important first step towards converting as many of the region's non-exporting firms as possible into exporters. Familiarity breeds confidence and as more small firms become aware of what is involved the enigma of international business is removed and they may be motivated to try it. For practitioners of international business blueprinting the process not only helps managers see what it is that they do intuitively but it helps provide a useful conceptual framework to would-be practitioners. From a policy-making perspective, a better understanding of the internationalization process will ensure that the policy tools that are applied to

small and medium sized firms and aimed at increasing the number of exporters as well as the volumes of exports will be more relevant. This in turn will mean that the needs of different groups of exporters will be better addressed by new and more relevant export policy initiatives. This is likely to yield better export results than what is presently the case.

1.5 METHOD OF STUDY

Data collection will be done through a questionnaire that is personally and electronically administered. The sampling procedure will be simple random sampling, because of the ease with which this procedure can be applied and the acceptable validity and reliability standards that it can meet if adequate care is taken to have a large enough sample without an over representation of one group of firms or one geographic location and if the research instrument accurately captures the phenomenon under investigation, as well as if adequate statistical measures are applied (Malhotra, 1993). The principal selection variables will be the industry in which the organisation exists, whether or not a firm is involved in international business and its size by the number of employees. The research design will for practical purposes follow the much criticised cross-sectional design because the time and resources available to do the study do not make it possible to use a longitudinal design.

The preferred sample frame is a mixture of firms from different industries so that the results may be more representative. The ideal mixture would be according Coviello and Munro's (1997) proposal that is as follows:

- High technology and knowledge-based firms.
- Low technology and knowledge-based firms.
- Low technology and manufacturing-based firms.
- High technology and manufacturing-based firms.

A weakness of previous studies on the subject has been their narrow focus in terms of the industries studied and the variables examined. However, its cross-industry and cross-issue nature could potentially present difficulties relating to validity and reliability issues, if proper care is not taken to ensure statistically robust findings.

The sample size issue has also been the bane of internationalization studies with a few exceptions namely Bonaccorsi (1992) and Calof (1993). The general criticism has been that the sample sizes used to arrive at conclusions in the vast majority of studies have been too small to allow valid conclusions to be arrived at (Christensen *et al*, 1984; Andersen, 1993; and Crick, 1995). In view of this, approximately 2000 South African and Zimbabwean small firms engaged in international business will be studied. While this sample is not nearly as large as Calof's (1993) 14000 firms, or Bonarccorsi's (1992) 8800 firms, the proposed sample in this study is large enough to yield statistically sound results. The respondents will be the founder/principal leader of the firm or key informants designated by them because of their knowledge of requisite details. A pilot study will be done with approximately 5 respondent firms, the objective being to perfect the interview technique and the research instrument.

1.5.1 DATA ANALYSIS

In the analysis both qualitative and quantitative techniques are used. The analysis will be done using SPSS version 10. Because of the complex nature of the subject under investigation, a wide range of statistics and associative tests will be applied. In testing each of the hypotheses t-test will be used where relevant, as will factor analysis, discriminant analysis, cross-tabulations and frequency tables. There is always a temptation to use a bewildering array of

statistics including some not so common measures, but for the purposes of clarity, only necessary statistics to validate the findings of the study will be used.

Sullivan (1994) has argued that in most studies on internationalization the constructs used to measure the degree of internationalization are chosen arbitrarily hence the research has tended to be "*disjointed and inconclusive*". In view of this, construct selection will be based on previous research on internationalization as well as items that score highly in the correlation matrix created for construct selection. The idea is to tie the different research threads together so that the result is a more comprehensive body of research on the subject of small firm internationalization.

How the thesis will proceed

Chapter two introduces small business theory since the unit of analysis for this study is the small business, because of its unique characteristics that are expected to have a bearing on the way it internationalizes. Secondly, it is the most ubiquitous form of business and therefore it is easier to find a good sample size with which to work. The meaning of Small business is defined, as is the distinction between small business management and entrepreneurship. The growth patterns of small firms as well as their contribution to society are dealt with in this chapter.

Chapter three focuses on the other half of the issue, that is on international business. Here international business theory is examined ranging from its very early development in rational economic theory and more specifically international trade theory right up to the present day theoretical wisdom.

Chapter four is a synthesis of chapter two and chapter three. The relationship between small business and internationalization is established. The focus is on the internationalization process of small firms. This is the newest stream of

international business research and this thesis is a contribution to that growing body of research, particularly from the process aspect.

Chapter 5 is the research methodology chapter. In it are the complete details of how the research has been carried out and the reasons for the research design that has been used, as well as spelling out the limitations that were experienced with the research design that was used.

In chapter six, the thesis dwells on the output of the research process. Data are analysed using factor analysis, discriminant analysis, correlations coefficients, cross-tabulations and simple frequency measures.

Chapter seven presents some interesting insights gathered from data analysis chapter. A new model of small firm internationalization is presented as are the intra-stage processes at work in any internationalization activity.

Chapter eight is the closing chapter with recommendations for policy makers in particular on how to make small firm internationalization since there is a general recognition that future economic growth will be largely contributed to by small firm international growth. Recommendations are also given in respect of the direction that future research should take.

1.6 SUMMARY

This chapter provided a brief background to the study of international business and gave insight into the state of the art on research as well as the general concerns about research in the field. Two main problems have been identified as inhibiting progress in developing sound theory. These are:

- The lack of a theory building approach in received research.
- Methodological shortcomings in received research.

Further to that, the research problem was defined as being the lack of an integrative framework on the internationalization process of small firms and the lack of new frames of reference that are based on observations in the real world of modern international business. Four research questions that have guided this thesis were presented as follows:

- What are the motivating factors of internationalization?
- What is the effect of speed on internationalization?
- Does internationalization occur in predefined stages?
- How does the mechanism that triggers internationalization operate?

These research questions will be elaborated on in chapter 5, where detailed methodological aspects of the research will be presented. Chapter 2 will be a literature study of small businesses that is intended to give an insight into the difference between small businesses and large business, their role in the national economy and why a separate study of them is justified.

Chapter TWO

SMALL BUSINESS THEORY

2.1 DEFINING SMALL BUSINESS

A small business is one that employs less than 100 people (Scarborough and Zimmerer, 2002).

A small business is an organization that employs up to 500 people and has sales of up to US\$50 million (Manolova *et al.*, 2002).

A small business is an organization that employs up to 99 people, while a medium scale business employs between 100 and 499 people (Bonaccorsi, 1992).

A small firm is an organization that employs up to 5 people, while a medium scale business employs up to 20 people (Obben and Magagula, 2003).

A small business is an organization that employs up to 200 people and has a turnover of up to R10 million, approximately US\$750 000 (Soontiens, 2002).

A small business is an organization that employs between 10 and 49 people, while a medium sized enterprise employs between 50 and 249 people (Curran and Blackburn, 2001)

The question remains how small is a small firm? From the definitions above it is clear that a standard definition of what constitutes a small firm universally does not exist. Some studies measure firm size in terms of the number of employees in the firm, while others measure it in terms of the sales volumes and still others combine the two approaches. Therefore as Reid (1982) pointed out, definitions of small business vary within a country and across countries. Several studies have examined the effect of firm size on export behaviour and have failed to yield a generally accepted view of just how important the question of size is in firm internationalization. Table 2.1 below provides a useful summary of Calof's (1994) analysis of firm size studies.

TABLE 2.1

Review of Selected Studies on Size and Export Behaviour

Study	Respondent's			size Measure	Results
	No.	Location	Size		
Cavusgil and Nevin [1981].	473	Wisconsin, USA	Small/Medium	Sales Employees	+
Hester [1985].	54	USA	All	Employees	N.S.
Bilkey and Tesar [1977].	423	Wisconsin, USA	Medium/Large	Employees	Mixed
Hirsch [1971].	500	Denmark, Holland, Israel	Small/Medium	Employees	Mixed
Cavusgil [1976].	473	Wisconsin, USA	All	Sales	Mixed
Burton and Schegelmilch [1987]	310	United Kingdom	Large	Employees	Mixed ¹
Lall and Kumar [1981].	100	India	Small/Medium	Sales	+*
Kaynak and Kothari [1984].	329	Nova Scotia	All	Employees	+*
Maizehzadeh and Nohavandhi [1985].	296	California, USA	All	Sales	+*
Small Business Research Trust [1986]	1022	United Kingdom	Small/Medium	Sales	+*
Cavusgil, Bilkey and Tesar [1979]	473	Wisconsin, USA	All	Sales	+1
Cavusgil [1984].	70	Illinois, USA	All	Sales	+
Maizehzadeh and Nahavandhi [1985]	361	California, USA	Small/Medium	Employees	+
Mugler and Miesenbock [1986].	360	Austria	All	Employees	+
Bonaccorsi [1992].	8810	Italy	All	Employees	+
Cavusgil and Naor [1987].	310	Maine, USA	Small/Medium	Employees	+*
Christensen, Rocha and Gertner [1987]	152	Brazil	All	Sales	+
Holzmuller and Kasper [1991]	103	Austria	Small/Medium	Employees	Indirect*

1 Exact level of significance for the variable was not provided as it was grouped with other variables.

*Significance was not tested. Mixed = Results generally show that size matters only for very small firms.

N.s. = Differences were not significant at 0.5.

Source: Calof (1994, p.369)

Curran and Blackburn (2001) have highlighted the weaknesses of relying on the number of employees and turnover as measures of firm size. Using the number of employees as a measure of size suffers from two weaknesses which are that firms often use part-time employees to meet increased demand for a firm's offerings and these employees are generally not included in calculations of the firm's size in terms of the number of its employees. If these part-time employees were considered, the firm would qualify as a large firm but with a turnover level of a small firm.

Secondly, a firm with few employees can be associated with a large turnover and a market capitalization that would qualify it as a large firm in terms of its turnover. In both cases neatly categorizing the firm would not be a simple matter. The use of a firm's turnover as a measure of size also has its problems. The first problem is that of inflation. A firm that was small according to the turnover figures prevailing 10 years may not be classified as small according to current figures, and yet it still has roughly the same number of employees as it did then and roughly similar turnover in inflation adjusted terms. This is particularly so in high inflation environments.

The second problem associated with the use of turnover figures is the inaccurate reporting of turnover information and the third pertains to the fact that firm size is industry related. A small firm in one industry may most certainly be a large firm in another industry. The fourth problem concerns the lack of parity in terms of purchasing power across countries. For example annual sales of US\$5 million may be small in the USA, but certainly not in Southern Africa or elsewhere, where such a firm may be regarded as a large firm (Philp, 1998).

Therefore it seems likely that the problem of arbitrary determination of firm size will be a permanent feature in the study of small business. Other measures have been used such as: independence of ownership and small market share size, membership in a small business association, the independence of ownership and

the owner's contribution to the firm's performance results (Robinson and Pearce 1984; Keats and Bracker, 1988; Lloyd-Reason and Mughan, 2002 and Sadler-Smith *et al.*, 2003).

While these alternative measures are a bold attempt at coming up with a common denominator of small business, they are nevertheless impaired in so far as they are not defensible scientifically, since the same arbitrary judgements of what constitutes a small firm will have to be made. However, the common denominator of firm size determination in most studies is a combination of the number of people employed and the volume of a firm's turnover, even though the exact figures in each of these two classification variables differ considerably. The weaknesses of each approach and definitional problems aside, a useful conceptualization of a small firm is of a business entity that is independently owned and personally managed by the owner(s) and with a relatively small market share size (Curran and Blackburn, 2001).

2.2 CHARACTERISTICS OF SMALL BUSINESSES

The question still has to be asked: *how different are small businesses from large firms to warrant special investigation of their internationalization process?* Several authors have argued that a small business is not a miniature version of a large business (Dandridge, 1979; Welsh and While, 1981; Shuman and Seeger, 1986). Building on the work of Dandridge (1979), Keats and Bracker (1988) argue that a small firm is different to a large firm in terms of:

- Resources available to the business
- The range of strategic options available
- Management characteristics

Other authors have made the same observations more recently (Brush, 1995; Lloyd-Reason and Mughan, 2002 and Obben and Magagula, 2003). Unlike the

large firms, small firms are price-takers. The business objectives of small firms are diverse and do not necessarily lead to profit maximization. This is possible because small firms generally do not have outside shareholders to report to. Small firms are an excellent medium for innovation. Many innovations are introduced by small firms. They are able to offer products or services designed to satisfy the needs of niche markets that large firms cannot because of their standardization of the products and services they offer for mass marketing and scale economy purposes. Small firms also have a more fluid structure and organization than large firms because of their constant development from one form to another, much as a caterpillar is transformed into a butterfly (Storey, 1994).

Small firms are in many cases less knowledgeable about foreign market opportunities and generally need more outside help because they lack the resources and time to explore foreign opportunities (Czinkota and Johnston, 1985). They also pursue different strategies by virtue of their limited access to both financial and material resources (Wolff and Pett, 2000). Small firms also tend to be more risk averse and the impact of a mistake in the market is greater on the organization's memory and will negatively affect its appetite for future risk laden endeavours (Calof, 1994).

Small firms generally experience bigger problems than large firms in that they are more dependent on one or few major customers and or a narrow product/service range both of which result in large variations in profitability throughout the course of the year. The financial problems, managerial problems, environmental problems, and other problems are responsible for the higher mortality rates among small firms (Westhead *et al.*, 1995).

The managerial differences are amplified in a number of ways. Miesenbock (1988) and Crick and Chaudhry (1997) both contend that the decision-maker is the single most important variable in internationalization of the small firm. The

owner or founder of the small business or head of the family in the case of a family business, is the primary decision-maker. Decisions are based on the personal experiences and values of the owner/founder of the firm and therefore the culture of the firm is strongly influenced by the culture of the owner/founder. Communication and co-ordination are highly personal. Financial and production control is tight and authority is highly centralized. The management ideology prevailing in many small firms may be described as a benevolent autocracy (Tsang, 2001).

Managers in the small firm wear many hats which results in diffuse interdepartmental interaction thereby reducing intra-organisational barriers to information (Nielson, 1974; Notman, 1998). Managerial processes and structures in the small firm are more flexible, less complex and sophisticated (Coviello and Martin, 1999). Managers in small firms can be distinguished from other managers in terms of their entrepreneurial orientation (Andersson, 2000). This last trait has been a subject of much controversy amongst scholars on small business management. Therefore a brief digression designed to shed more light on some of the perspectives on entrepreneurship and small business management is called for.

2.2.1 ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

An entrepreneur has been defined as a person who carries out entrepreneurial acts (Andersson, 2000). He/she has also been defined as an innovative person who identifies an opportunity and starts a business where there was none before (Cunningham and Lischeron, 1991).

The former definition makes no distinction between intrapreneurs (innovative, proactive and risk taking individuals within large firms, who have also been referred to as corporate entrepreneurs) and entrepreneurs. The later definition is

much narrower and does not regard as an entrepreneur, a person who works for large corporation however innovative, proactive or risk taking he/she may be.

Entrepreneurship is therefore defined as:

- *“Serving as an agent for change; providing creative, innovative ideas for the enterprise and helping business grow and become profitable”* (Hodgetts and Kuratko, 2001).
- *“An act of creation”* (Johannisson and Monsted, 1997).
- *“Creating and building something of value from practically nothing”* (Timmons, 1994).
- *“Creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the resulting rewards of monetary and personal satisfaction”* (Hisrich and Peters, 1992)
- *“A reiterative process in which the entrepreneur(s) assume responsibility for the venture and personally evaluate it, plan its activities, carry out actions on its behalf and reassess its performance”* (Cunningham and Lischeron, 1991).
- *“The process by which individuals either on their own or inside organizations, pursue opportunities without regard to the resources they currently control”* (Stevenson and Jarillo, 1990).

The common thread that seems to run through all these definitions is that an entrepreneur is creative, opportunity seeking and action-oriented.

Some authors make a distinction between entrepreneurs and small business owners, based on the type of business a person operates. For example, Barry (1978) and Moores and Barrett (2002) make a distinction between the family firm that is inherited and the entrepreneurial firm that is still directed by the founder. The entrepreneurial firm is concerned with growth and profitability and the entrepreneur is continuously seeking new opportunities, engaging in innovative behaviour, proactively planning the path that the business should take and taking calculated business risks.

On the other hand small business owners are the antithesis of this. They are risk averse, passive, reactive, as well as being concerned with administrative practices and prefer to do business as usual (Sadler-Smith *et al.*, 2003). Therefore, small business ownership does not equal entrepreneurship, neither does an entrepreneur necessarily lead an entrepreneurial firm. However for some authors an entrepreneur and a small business manager are one and the same thing (Longenecker and Moore, 1991; Cunningham and Lischeron, 1991). In their view, trying to separate the two amounts to double counting.

However, there is a substantial and growing body of convincing research evidence that suggests that there is a difference between a small business owner and an entrepreneur. Entrepreneurs do own small businesses too and they do have general management skills too, but it is their character, managerial approach and business performance that separate them from mere small business managers or owners. Therefore entrepreneurial style and managerial style of individuals in small firms are not mutually exclusive. It is a matter of where the emphasis is placed (Hodgetts and Kuratko, 2001). Table 2.2 below outlines the characteristics that define an entrepreneur and distinguish him/her from small business owners.

TABLE 2.2

Characteristics Of Entrepreneurs

Date	Author(s)	Characteristic(s)	Normative	Empirical
1848	Mill	Risk-bearing	X	
1917	Weber	Source of formal authority	X	
1934	Schumpeter	Innovation, initiative	X	
1954	Sutton	Desire for responsibility	X	
1959	Hartman	Source of formal authority	X	
1961	McClelland	Risk taking, need for achievement		X
1963	Dauids	Ambition, desire for independence Responsibility, self confidence		X
1964	Pickle	Drive/mental, human relations, Communication ability, technical knowledge		X
1971	Palmer	Risk measurement		X
1971	Hornaday & Aboud	Need for achievement, autonomy/independent Aggression, power, recognition, innovative		X
1973	Winter	Need for power	X	
1974	Borland	Internal locus of control		X
1974	Liles	Need for achievement		X
1977	Gasse	Personal value orientation		X
1978	Timmons	Drive/self confidence, Goal-oriented, Moderated Risk taker, internal locus of Control Creativity/innovation	X	
1980	Sexton	Energetic/ambitious, positive reaction to set backs		X
1981	Welsh & White	Need to control, responsibility seeker, Self confidence /drive, challenge taker, Moderate risk taker		X
1982	Dunkelberg & Cooper	Growth-oriented, independence-oriented Craftsman-oriented		X

Source: Carland, Hoy, Boulton and Carland (1984, p.356)

Small business owners either lack some of these qualities completely or have them in insufficient quantities compared to entrepreneurs. In addition to the differences in the characteristics between entrepreneurs and small business owners, there are further differences in the approaches to decision-making

between entrepreneurs and small business owners and even managers in large organizations. Hisrich and Peters (1992) provide them as follows:

- **Strategic orientation**

The strategic orientation of an entrepreneur is opportunity-based. The strategic posture does not go beyond the life of the opportunity available and is designed to exploit it to the fullest extent while it lasts.

- **Commitment to opportunity**

Because of the transient nature of opportunities, entrepreneurs are willing to assume the risks attached to acting swiftly to exploit the opportunity. The entrepreneur is under pressure to act quickly whereas those with an administrative approach to decision-making are slow to act but once committed to the opportunity they do so with a long-term view.

- **Commitment of resources**

Entrepreneurs commit resources in a piecemeal or multistage fashion because of the difficulty of marshalling the required resources at once and also because the need to minimize risk exposure. They are able to accomplish much with very little by way of resources. By contrast, administratively oriented individuals commit the total amount of resources required to exploit an opportunity.

- **Control of resources**

Entrepreneurs are under pressure to use their limited resources bearing in mind the risk of obsolescence and to be as flexible as possible, which necessitates the use of rented resources wherever possible. Administratively orientated individuals on the other hand accumulate as many resources as possible because their status, and power depend on how much of those resources they possess.

- **Management structure**

The entrepreneur maintains a flat and informal structure while the administrative types hierarchical structure with clearly defined roles and authority relationships.

To summarise, there are differences between small business managers and entrepreneurs in terms of the individual characteristics and the decision-making processes. With that in mind, it is also important to note that there are essentially two different types of entrepreneurs identified by Smith and Miner (1983). These are craftsman entrepreneurs and opportunistic entrepreneurs. Craftsman entrepreneurs generally have a limited educational background as well as poor communication skills and a low social awareness, but they have technical expertise derived from on-the-job experience. They are characterized by paternalism, reluctance to delegate authority, thrift and a limited time-orientation meaning that they do not spend a great deal of time in planning for future business growth. Examples might include a carpenter with his/her small shop, or a stone artist with his/her small open-air stall.

The opportunistic entrepreneurs on the other hand, generally have a certain level of education and training in addition to the technical skills. They are characterized by high social awareness, a more liberal approach to management delegating authority where they feel it is called for, and plan for future growth as well as use more sophisticated marketing and management techniques. Examples might include an architect with his/her practice or an electrical engineer who formerly worked for a big corporation.

Quite often, an entrepreneurial firm will combine these two types of entrepreneurs particularly where two or more individuals have come together and jointly established a small firm.

The differences between small business owners and entrepreneurs aside, they have a common denominator in that they both operate small businesses and that

they are different to large business in many ways and share similar business problems and experiences. The discourse will now revert to the original discussion of small businesses without the peculiarities of entrepreneur and small business owner.

2.3 THEORY ON SMALL BUSINESS FORMATION

Approaches that have been used to explain the behaviour of small firms and in particular their formation are the industrial economist's approach and the labour market approach. According to the industrial economist's approach, "*entry into the industry is assumed to take place following a rise in the expected post-entry profitability of entrants to that industry. Entry is deterred by barriers such as access to unique inputs, et cetera. Entry is assumed to be positively related to the growth of the industry. Finally, highly concentrated industries are assumed to exist where there is an opportunity for collusion between existing incumbent firms to minimize the possibility of entry [New]. Entry therefore is expected to be low when industrial concentration is high*" (Storey, 1994). The empirical model of firm entry is given by the equation below, with predicted causations in parenthesis.

$$E = f(X, BE, GR, C)$$

Where E = entry, X = Profits (+), BE = entry barriers (-), GR = growth (-)
And C = concentration (-).

The labour market approach on the other hand is interested in the supply of entrepreneurs and the factors that influence that supply. From this perspective of small business theory, an individual has three employment options, that is: to be unemployed, entering paid employment or choosing self-employment. According to Storey (1994), research shows that the decision for self-employment or starting a small business is strongly influenced by three factors that are: personality, work experience and ethnic origin. The likely personality characteristics of an individual starting a business are: entrepreneurial vision,

alert to opportunities, proactive, innovative, easily bored, powerful personality and drive, and not a team player. A person entering self-employment is likely to have a good level of education, and having had previous work experience in a large or small firm, more so if they held a managerial position. Finally, a person entering self-employment is more likely to come from an immigrant minority ethnic group.

As to where small firms are likely to be established depends on 8 factors which are: the population characteristics (that is: the population proportion of a particular region of individuals in the 25-44 age group, population growth in that area and employment rates in the area), unemployment rates in the area (high unemployment is associated with low new venture formation), general wealth in the area (high wealth is associated with higher likelihood of new venture formation), occupational and educational characteristics prevailing in the area (high educational levels with high numbers of people with managerial positions increases the likelihood of new venture formation), dominant firm size in the area (areas dominated by small firms have an increased likelihood of new venture formation), housing ownership patterns (areas where individuals own the houses they occupy have an increased likelihood of new venture formation since houses provide collateral for raising business finance), local government expenditure (high expenditure is associated with high new venture formation) and finally central government policy aimed at stimulating new venture formation in a particular area (Storey, 1994).

The timing of new venture formation will depend on 7 factors which are as follows: the prevailing economic growth rates (high aggregate growth in an economy increases opportunities and increases the likelihood of new venture formation), the personal income taxation rates (high personal taxation rates provide an incentive for self-employment since income earned can more easily be concealed in a business), the levels of profitability in existing small businesses (high profit levels are an incentive for new venture formation), the prevailing

interest rates (high interest rates restrict access to capital and therefore new venture formation will be restricted in high interest rate periods), the level of consumer expenditure (new venture formation will be high in those periods when consumer expenditure is high), the level of personal savings (high levels of personal savings are associated with a higher propensity for new venture creation) and finally, the existence of structural changes in an economy that favour the creation of certain types of businesses that others. For example, increased wealth in an economy may increase the formation of service oriented new ventures as opposed to manufacturing small firms (Storey, 1994).

2.3.1 GENERAL THEORETICAL FOUNDATIONS OF SMALL BUSINESS

From a general theoretical standpoint, small business management is firmly rooted in organizational theory, and more specifically in the general systems theory. The organization's parts are interdependent and interact with the environment resulting in feedback that modifies the organisation's behaviour (Stacey, 1993). In other words, a key facet of this theory that is also mirrored in an entrepreneurial venture is the organization's adaptation to environmental threats and opportunities. However, the general systems theory provides us a necessary and sufficient level of abstraction from which to analyse the organisation in more detail.

On a micro-level, small business behaviour is better explained using the network theory, the population ecology theory and the resource-dependence theory. From a network perspective, an organisation exists and is influenced by both formal and informal ties with other environmental actors. According to Holmund and Kock (1998) a business network consists of three vital features that are: the social network, the resources available to an organisation and the position in a network that an organisation occupies. Social networks that span geographic boundaries give rise to international entrepreneurship. Networks then serve to

improve an organisation's capacity to grow. Small firm growth and internationalization has also been explained from a cell division perspective borrowed from biological sciences (McGuire, 1976 and Cardozo *et al.* 1995). This perspective views an organisation's pattern of growth as being the result of a division of cells and subsequently their multiplication.

A related theory that is also derived from the biological sciences is the population ecology theory that attempts to draw parallels between the organism and the organisation (Hanna and Freeman, 1977). The principal argument presented under this theory is that an individual organisation's size and growth pattern must be analysed in the context of populations of organizations and the characteristics of the environment within which they operate, because the population ecology has the power of natural selection. Through competition and other uncontrollable environmental factors, an organization will be allocated a certain amount of resources and depending on how well it adapts to the environment, it will remain small, grow or die. From this perspective of organisational theory, the deliberate and rational choices of managers however sound, do not necessarily lead to business success. It is essentially a deterministic view of organizations.

On the other hand, the resource dependence theory contends that those firms located in resource-rich environments have a greater chance of growth and survival (Pfeffer and Salencik, 1978). The access to critical resources will give the organization a sustainable competitive advantage. Thus inter-organizational networks are formed with the view of gaining or maintaining access to critical resources to ensure an individual organization's success. Therefore, the network theory and resource dependence theory are complementary theories of the organization (Human and Provan, 1997).

Owing to the differences in the behaviour small firms and large organizations, and the inapplicability to small business of some of the management and

organizational concepts found in general organizational theory, attempts have been made to move away from the general organizational theory to developing specific small business theories.

d'Amboise and Muldowney (1988) provide a concise and useful summary of these efforts. Their work demonstrates how small business theory building is organized around: organizational configuration, managerial characteristics, reasons for success or failure, and growth patterns. Their study concludes that the issues confounding theory building for small business are:

- The lack of common terminology for major concepts
- The existence of untested or partially tested hypotheses being used for theory building
- The theoretical propositions are not entirely generalizable because research is too problem specific.

Therefore, like internationalization theory, small business theory is still in its formative stages and a generalizable conceptual framework is still in the process of being developed albeit in a piecemeal fashion from a multitude of research paths.

2.4 SMALL BUSINESS GROWTH

Much of the literature on growth does not even define what growth is and the reader is left to make up his/her own mind on what constitutes business growth. However, Cardozo *et al.* (1995) provide what can be viewed as an almost complete and operational definition of firm growth. They define growth as: *“a change in size or magnitude from one period to another of any or all of the following measures: resource base of the firm, physical output, sales revenue, market share or profits”*. And because these measures are related, they refined the definition to: *“organisation growth is an increase in size, measured by structural or functional characteristics of the unit”*. However, this work also contends that there is an additional dimension of growth that should be

incorporated in any definition of business growth and that is growth in the organisation's stock of knowledge or the sum of its learning. Therefore, this work conceives organisation growth as an increase in size measured by structural or functional or intellectual-skill characteristics of the unit. Small business growth is a function of both market and management factors (Hisrich and Peters, 1992). These factors impact differently on a firm and consequently the rate or direction of growth for each firm will differ widely even for firms in the same environment and with similar profiles. Therefore, firms can be classified according to their ability to grow and their propensity for growth. Table 2.3 below classifies firms along two dimensions, which are: propensity for growth and ability to grow.

TABLE 2.3

Small firm classification based on growth

<i><u>Propensity For Growth</u></i>	High	Life-style small firms	High-growth firms
	Low	Marginal small firms	Successful small Growing firms
		Low	High
		<i><u>Ability to grow</u></i>	

Source: Hisrich and Peters (1992, p. 413)

However, three models of firm growth explain the actual mechanism of how small businesses grow. These models are as follows: the cell division model, the metamorphosis model and more recently the network model.

The cell division model of firm growth

This model conceives organization growth as analogous to organism growth through cell division. This is a population ecology view of small firms. The small firm is assumed to alter its shape as it grows by adding new structures to itself. Organizational decay and growth are simultaneous and complementary processes. New structures are added as old ones are destroyed and this is a continuous process. Cardozo *et al.* (1995) describe the cell division growth process in small firms as follows:

1. Conception and gestation – The business concept or vision.
2. Assembling – Turning the vision to reality.
3. Reaching and Attaching – The firm looks for appropriate niches to attach itself. This may involve trial and error.
4. Expansion and Replication – Sales rise and customers increase.
5. Replication with Modification – new flavours of the original product are added (product line extensions).
6. Varietizing and Replication – New products, models customer segments and so on, are added. This process also occurs internally. New salespeople are employed along with other staff.
7. Identification, absorbing and annexing - At some point internal growth will be supplemented by growth through acquisitions.

The metamorphosis model of small firm growth

d'Amboise and Muldowney (1988) point out that the difference between the cell division model and the metamorphosis lies in the fact that the cell division model is concerned with changes in degree, whereas the metamorphosis model is concerned with changes in kind. It would appear that the

metamorphosis model is the more popular in small business growth literature. The model offered by Scott and Bruce (1987), is typical of other models within the metamorphosis school of thought. There may be differences in terminology or the number of steps, but essentially the model represents the basic ideas of this school of thought. Change from one form to another will occur through a crisis that makes it impossible for the firm to maintain its current state (Storey, 1994). Table 2.4 below is an illustration of the metamorphosis model.

TABLE 2.4

Small firm growth process, management roles and styles

Stage	Top management role	Management Style	Organisational Structure
1. Inception	Direct supervision	Entrepreneurial, individualistic	Unstructured
2. Survival	Supervised supervision	Entrepreneurial, administrative	Simple
3. Growth	Delegation/co-ordination	Entrepreneurial, co-ordinate	Functional, centralized
4. Expansion	Decentralisation	Professional, administrative	Functional, decentralized
5. Maturity	Decentralisation	Watchdog	Decentralised, functional /product

Source: Scott and Bruce (1987)

Storey (1994), however argues that this model of small business growth along with others like it, are merely descriptive, untested and limited in terms of the growth variables examined, and proceeds to offer what he believes to be a better model that measures firm growth in terms of how well a firm combines the three components of:

- The entrepreneurial resources at the start of the venture
- The firm
- Strategy

Table 2.5 below illustrates these three constructs along with the variables that impact on small firm growth.

TABLE 2.5

Factors influencing growth in small firms

The Entrepreneur/Resources	The Firm	Strategy
Motivation	Age	Workforce training
Unemployment	Sector	Managerial training
Education	Legal form	External equity
Management experience	Location	Technological
		Sophistication
Number of founders	Size	Market positioning
Prior self-employment	Ownership	Market adjustments
Family history		Planning
Social marginality		New products
Functional skills		Management recruitment
Training		State support
Age		Customer concentration
Prior business Failure		Competition
Prior sector experience		Information and advice
Prior firm size experience		Exporting
Gender		

Source: Storey (1994, p.123)

On the first construct (entrepreneur/resources) he concludes that firms that are likely to experience high growth are formed by well-educated, experienced and middle-aged groups of individuals. On the second construct (the firm), the conclusion is that younger limited liability companies are more likely to grow than small sole traders. On the final construct (strategy), the conclusion is that high growth firms have owners who share equity with outside firms and individuals, a clear product position, introduce new products and devolve decision-making to non-owner members of the firm. However, this model itself can be criticized for having too few constructs to explain this multi-variable, multi-construct

phenomena and failing to predict small firm growth. Therefore it can be regarded as being of limited usefulness.

Burns (2001) makes several interesting observations about small firm growth and these are that, the transition from a micro-entrepreneurial firm to a bigger small firm can be very painful. The same qualities that made the firm entrepreneurial at the beginning and were responsible for its success can become serious constraints to its growth and continued existence as an entrepreneurial firm. For example the flexibility afforded by a simple informal structure and the management virtue of being personally in control of everything while the business is small, become serious liabilities as the firm grows beyond a given number of employees. The problem is such that the firm may cease to be an entrepreneurial firm as the entrepreneur is overwhelmed by the task of managing the business but at the same time unwilling to let go and therefore stifling any entrepreneurial initiative in employees.

The second observation concerns small business growth models. They assume that a firm will experience growth and yet the number of firms who become casualties of failure soon after inception is very large. Where growth does occur it often takes forms that are very different to that proposed in the models. For example some firms may remain in the same growth phase throughout the course of their lives and the imperatives for movement to different phases of growth determined arbitrarily.

The network model of small firm growth

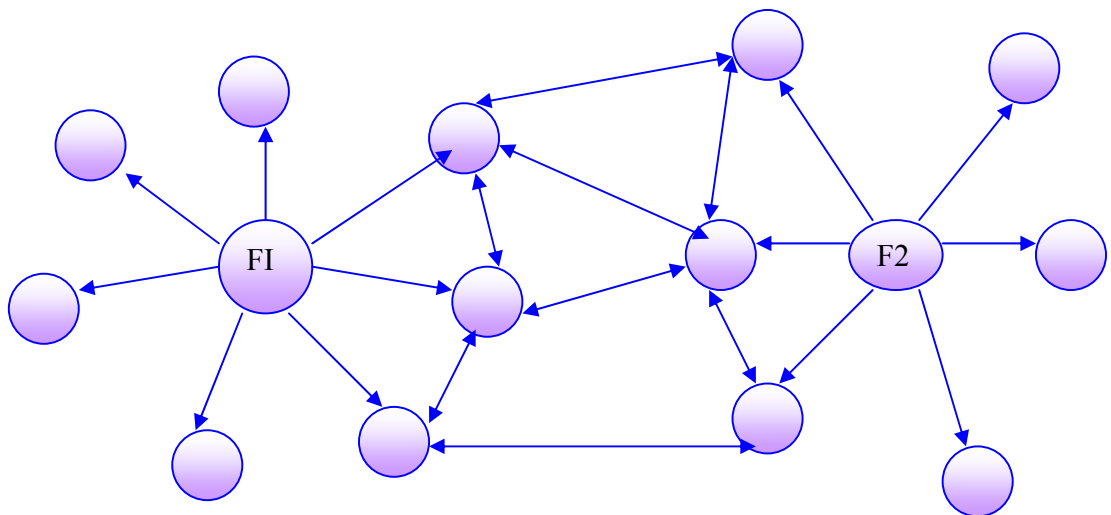
The network model of firm growth is rooted in the social exchange theory of organizations. Anderson *et al.* (1994) view a network as: *“a set of two or more connected business relationships in which each relation is between 3 business firms that are conceptualized as collective actors”*. By co-operating each business brings to the other its set of network relationships to work for the

common good. Over time the network members learn to co-operate and co-ordinate their activities and therefore increase the productivity and growth of their value chain (Blankenburg *et al.*, 1996).

Networks can be developed at the supply side of the value chain or at the market, or among competitors or with central or local government or its agents or with other third parties (Ghauri, 1999). The important point to note about networks is that they are formalized co-operative arrangements designed to meet specific ends. Indeed, networks have been offered as the reason for the rapid international growth of small firms (Coviello and Munro, 1997). Figure 2.1 below shows how two firms, firm 1 (F1) and firm 2 (F2) can come together and create a complex network in which there are many permutations of relationships among network partners (suppliers, distributors, retailers and even customers). Growth in networks is assumed to be exponential rather than incremental as in the cell division and metamorphosis models of small firm growth.

FIGURE 2.1

Small firm network relationships for growth



The cell division model, the metamorphosis model and the network model are often viewed as the pure forms of small firm growth, but in practice they are not

mutually exclusive. In fact, the cell division model and the metamorphosis model should be viewed as complementary processes rather than separate models. Growth can be viewed as starting with cell division and culminating in metamorphosis. Networks can be viewed as one of the means by which metamorphosis can be achieved.

A small firm will typically grow by combining either of these patterns of growth in some measure at certain intervals of its development. The speed with which a firm grows may favour a certain growth pattern at one point while preferring another at a different point in its development. A point often missed in growth literature is that swift growth is the exception rather than the norm in small firms. Some firms do not wish to grow preferring instead just to survive in the current state, and therefore do not undertake deliberate efforts to grow. Indeed the incidence of negative growth and mortality is high (Hisrich and Peters, 1992 and Scarborough and Zimmerer, 2002).

2.5 THE ECONOMIC AND SOCIAL BENEFITS OF SMALL BUSINESSES

Small businesses are the most ubiquitous form of business organization in most modern economies. In the United Kingdom over 99% of the businesses are small businesses (Curran and Blackburn, 2001). In the United States of America 98.5% of the businesses are small businesses (Scarborough and Zimmerer, 2002). In the European community small businesses however defined constitute approximately 95% of all businesses (Storey, 1994). Prefontaine and Bourgault (2002) put the number of small businesses between 75-99% in most economies.

It is interesting to note that the world's most economically advanced countries have a very high proportion of small businesses forming the basis of their economies. Small businesses therefore are a powerful force in economic development and consequently it is not difficult to see why most governments

have a keen interest in developing these businesses. The social and economic benefits of small businesses can be enumerated as follows:

- **Providing employment**

A logical conclusion to the fact that small firms are the most widespread form of business organization in most modern economies is that small businesses are the biggest employers in virtually any economy. In the United Kingdom small businesses account for over 70% of the total number of people employed (Notman, 1998). In the United States of America they account for 58% of all employment (Keats and Bracker, 1988). They are also a rich source of new job creation. Therefore their contribution to the gross domestic product of any economy is huge.

- **Producing innovations**

Small businesses are the “seedbed” of most product innovations in an economy. Small firms produce 24 times more innovation per research dollar than large firms and account for 95% of all major innovations in the United States of America (Keats and Bracker, 1988 and Kirby and Watson, 2003). Innovations are important in that they improve productivity in an economy, or create new industries both of which aid the stimulation of economic growth (Kuratko and Hodgetts, 1998).

- **Stimulating economic competition**

Competition acts as a price and quality regulatory mechanism that benefits consumers. Competition is also helpful in stimulating the innovations referred to above (Hodgetts and Kuratko, 2001).

- **Complementing big business**

Small businesses perform certain functions more competently than large firms. For example they are able to reach a higher proportion of the consumer base by virtue of their ubiquity and therefore they are very active in the

distribution function. They also supply goods and services to large businesses that they are unable to provide for themselves or that are too costly for the big business to engage in. Typical examples in this regard include, the supply of specialized equipment for the automotive industry, software development services for large firms, equipment repair services, *et cetera* (Longenecker and Moore, 1991).

- **Stimulating geographic spread of industry**

Small firms act as a corrective measure in the distributive inequalities of business activity. They are footloose and can be set up anywhere including in rural environments that are normally avoided by large firms because of their lack of locational amenities, the geographic dispersion of the market, distance from the main centres of economic activity, and low purchasing power particularly from a developing country perspective (Teszler, 1993).

- **Stimulating cultural renewal**

The entrepreneurial activity of small firms breaks down certain old traditions and values that often inhibit social development and the creation of an entrepreneurial spirit in society. Therefore small businesses are a vehicle for positive social change (Morrison, 2000).

- **Providing economic empowerment of minority groups**

Effective participation in large firms by members of minority groups such as women, immigrants, the disabled and others, is sometimes limited. Therefore small business ownership provides a viable means of economically empowering economically vulnerable and disadvantaged groups. The economic contribution of these groups through their participation in small business is growing internationally (Kuratko and Hodgetts, 1998).

2.6 SUMMARY

This chapter has explored the nature of the small business and found that while there is no universally accepted definition of what exactly constitutes a small business it is useful to regard small businesses as those businesses that are independently owned and personally managed by the owner(s) and with a relatively small market share size. It was also noted in this chapter that there is a difference between small business management/ownership and entrepreneurship. An entrepreneur continuously seeks new opportunities, engages in innovative behaviour, proactively plans the path that the business should take, takes calculated business risks and has a different decision-making approach to other types of managers.

The chapter also discussed the two approaches adopted to explain the birth of small firms and these are the industrial economist approach and the labour market approach. As to how small firms grow, three models of small firm growth were identified and these are: the cell division model, the metamorphosis model and the network model. These models are complementary existing in an organization either simultaneously or at various intervals. Finally, it was noted that small firms are the most ubiquitous form of business in most modern economies accounting for as much as 99% of businesses. Small businesses have major social and economic spin-offs. They generate employment, complement large businesses; they spread economic activity; they provide product innovations more effectively than large businesses and stimulate healthy competition within the economy.

This chapter has provided the necessary background to the first part of our topic, which is on small business. Chapter 3 below will deal with the next aspect of our topic, which is on international business. The background given in this chapter and chapter 3 will enable the integration of small business and international business theory into small business internationalization theory in chapter 4.

Chapter THREE

INTERNATIONAL BUSINESS THEORY

3.1 DEFINITION OF INTERNATIONAL BUSINESS

Only a few authors take the time to define what exactly is meant by international business. Most assume a common knowledge of what it means and launch straight into a discussion on the subject. Ball *et al.*, (2002) define international business as: “*business whose activities are carried out across national borders*”. Similarly, Punnett and Ricks (1997) define international business as: “*any commercial, industrial or professional endeavour involving two or more countries*”. According to these two definitions, a company importing inputs purely for trade in the domestic market only, would be classified as an international company, because all the requirements of internationality as defined above are met in such a company.

Granted that that may not have been the intention of the authors to convey such a meaning of international business, it underscores the dangers of making casual definitions and the need for better precision when defining multi-factorial, multi-directional or ambiguous phenomena. Therefore a more robust definition must encapsulate the direction, the process and the desired outcomes of the phenomenon being described. However, Czinkota, *et al.* (1999) deliberately take the broader view of international business that includes export and import activities and define international business as consisting of: “*transactions that are devised and carried out across national borders to satisfy the objectives of*

individuals and organizations". Hill (2001) also takes the broader view defining an international business as: *"any firm that engages in international trade and investment"*.

For the purpose of understanding the internationalization process envisaged in this thesis, these definitions of international business are not only imprecise but lead to an even more complex definition of the internationalization process far in excess of what both academics and policy makers use. Below is what could arguably be viewed as a more specific and usable definition adapted from Scott (2001) which views international business as including: *"all business activities [motivated by internal and external influences] needed to create, ship and sell goods and services across national boundaries [for specific financial and non-financial rewards]"*. This definition is more comprehensive in that it spells out the direction, the actions and the outcomes expected from international business activities. Therefore this is the definition that is used in this thesis. Definitional issues aside, it is important to trace the theoretical foundations of international business from its earliest forms to present day conceptualizations in order to enhance our general understanding of field.

3.2 INTERNATIONAL TRADE THEORY

The domain of international business is rooted in classical economic theory, organizational theory and even biological theory of the organism. The basic question is why does international business take place at all? The classical trade theories borrowed from macroeconomics form the conventional wisdom on the rationale for international business. The classical group of theories is given below as follows:

- **The theory Of Absolute Advantage**

The theory of absolute advantage developed by Adam Smith (1776) is the earliest known and commonly accepted theory explaining why nations trade. The

country as a whole was viewed as the unit of analysis under this theory. The wealth of country (A) was compared with the wealth of country (B). It was not until the 1950s and 1960s that the firm became the unit of analysis in international trade theory. The theory of absolute advantage argued that an opportunity for trade arose if a country had an absolute advantage in the production of a particular set of goods and services, while at the same time having an absolute disadvantage in the production of a different set of goods and services that it needed.

In other words, each country specialized in what it could supply most efficiently. For example, according to this theory, South Africa would specialize in the production and export of diamonds and gold for which it has an absolute advantage owing to its unique geological endowments that facilitate an efficient and abundant supply of these goods, while at the same time importing Russian vodka for which Russia has an absolute advantage in its production and export. It was a case of the coincidence of wants and each country could benefit from trade (Jeannet and Hennessey, 1995).

For a long time this was the accepted theory on international trade. However the instances of absolute advantage were not many and then questions arose about what would happen to those countries that had no absolute advantage. Would their industries close down? Also what if country (A) could produce many of the goods that it needed in large quantities and at the same production cost as country (B), would trade still take place? The lack of congruency between the theoretical and the practical levels led to dissatisfaction with the explanatory power of the theory of absolute advantage culminating in the search for a new theory of international trade that was found in David Ricardo's (1817) theory of comparative advantage (Hill, 2001).

- **The theory Of Comparative Advantage**

According to the theory of comparative advantage, country (A) can still supply a product that it can produce efficiently even though country (B) may make that same product but more efficiently. A product's cost is measured in terms of the opportunity forgone in producing it instead of something else. The idea in this theory is that if a country has a relative advantage in the production of one product over another, then it should produce and export that good in which it has a relative advantage and import the product in which it has a relative disadvantage (Punnett and Ricks, 1997).

Buckley and Brooke (1992) note that the major limitations of this theory are that it is limited to land, capital, natural resources, and labour being the key factors of production. The cost side of the equation is held constant or ignored altogether, as is the level of demand and the income distribution effects, presumably to make the model easier to understand and explain. However, this theory fails to explain why nations continue to barricade themselves with ever increasing trade barriers if their welfare through trade efficiency is best served by specialization in those goods that they have the greatest comparative advantage while importing those goods in which they have a comparative disadvantage. The theory also fails to explain the behaviour of modern international trade activity that is characterized by the use of high technology, globalization and the transient nature of a competitive advantage that any nation may have in the production of specific goods and services owing to intense rivalry and competition among nations (Porter, 1990).

Currency exchange rate movements quite often render national comparative advantages fluid. Changes in a comparative advantage or disadvantage can be rapid for example in the event of a currency devaluation or economic meltdown. A case in point might be the Asian currency crisis between 1997 and 2001 where

national comparative advantages were lost quite literally overnight (Ball *et al.*, 2002).

- **The Hecksher-Ohlin Factor Proportion Theory**

A refinement of the theory of comparative advantage is found in the Hecksher and Ohlin (1933) model (H-O model) also known as the factor proportion theory, in which they added the concept of factor endowments to the original Ricardian model of comparative advantage. They explained that trade occurs as countries specialize in the production of goods in which they have a price advantage and exchange them for goods in which they have a price disadvantage. The differences in the production cost of individual goods brought about by differences in national production factor endowments, is the basis of trade among nations.

The reasoning behind this is that different products use different amounts or proportions of the three factors of production, land, labour and capital. At the same time different nations have different endowments of these factors. A country will therefore specialize in the production of goods that make the most intensive use of those factors of production that it has in greater abundance thereby achieving relatively lower costs in the production of those goods and thereby create an opportunity for exchange with other nations that specialize in the production of something else that they can produce more cheaply because of their factor endowments. This national specialization is assumed to increase the efficiency of the international trading system and the general welfare of nations (Hill, 2001).

The factor proportion theory like its predecessors was severely limited in practical applicability. According to Buckley and Brooke (1992) the assumptions are: *“homogenous products (no differentiation), identical production functions in all countries (i.e. the proportions of factors required to produce a certain good are*

invariant), equal access to the same body of technical knowledge, identical consumer preferences, factors of production perfectly mobile within countries but immobile between them and no transport costs nor other barriers to trade such as tariffs, are perfectly competitive markets”.

These assumptions are not true and they result in a mismatch between the theoretical level and the practical level. However this theory marked the end of the great classical trade theory era. The restrictions imposed by the assumptions made by the classical group of theories have led to new theory development on the subject of how and why international trade takes place. Sundaram and Black (1995) refer to these theories as “strategic trade theories”, and further point out that these theories recognize the following concepts that were ignored by the classical group of theories:

- *Increasing returns to scale.* Firms have an incentive to export because of the lower costs produced by scale economies.
- *Product differentiation.* Different tastes will result in the different brands of the same basic product being imported in a country. For example, Japan may have the greatest comparative advantage in the production of motor vehicles and yet it still imports luxury vehicles from Europe such as Porsche, BMW and Mercedes Benz because of the psychological and physical benefits provided by these vehicles to particular groups of customers.
- *Imperfect competition.* Trade barriers of one sort or another result in an increase of costs to foreign producers who may be the most efficient producers, and therefore demand may shift in favour of local producers who may be the least efficient producers.
- *Spillover effects.* Governments may intervene to control products they perceive as having an influence over national security. For example, certain computer software, certain aircraft or military hardware and so on.

- *Irreversible investments.* Some investments once made are irreversible because of the costs involved in reversing the decision, for example car assembly plants and heavy earth-moving equipment plants.

Therefore the strategic group of theories has gone beyond the limiting assumptions and the very simple models of the classical group of trade theories, to incorporate both organizational theory and economic theory. This has led to more realistic theories in the form of the international product life cycle theory, internalization theory, eclectic theory, and internationalization theory, all of which make up the strategic group of theories.

3.3 INTERNATIONAL PRODUCT LIFE CYCLE THEORY

World war II ushered in a new era in international trade theory building that could be termed the modern era. For the first time the firm became the unit of analysis in the 1950s. Two parallel approaches to international trade theory began to emerge. That is, the economic theory approach and the foreign direct investment (FDI) theory approach. The work of Leontif (1953) and Penrose (1956) greatly influenced new thinking on international business, particularly in the FDI school of thought. In the early 1960s product life cycle theories began to take root, for example, Posner (1961) found evidence of a time lag between the introduction of an innovation and the duplication of the same by foreign competitors. This avenue of research culminated in Vernon's (1966) influential work on the international product life cycle that attempted to explain how international trade takes place.

For Vernon (1966), international trade patterns were similar to the product life cycle patterns in the domestic firm. The search for low labour costs and a cost advantage were the motivating factors of international production. According to the product life cycle perspective of international business, firms will move

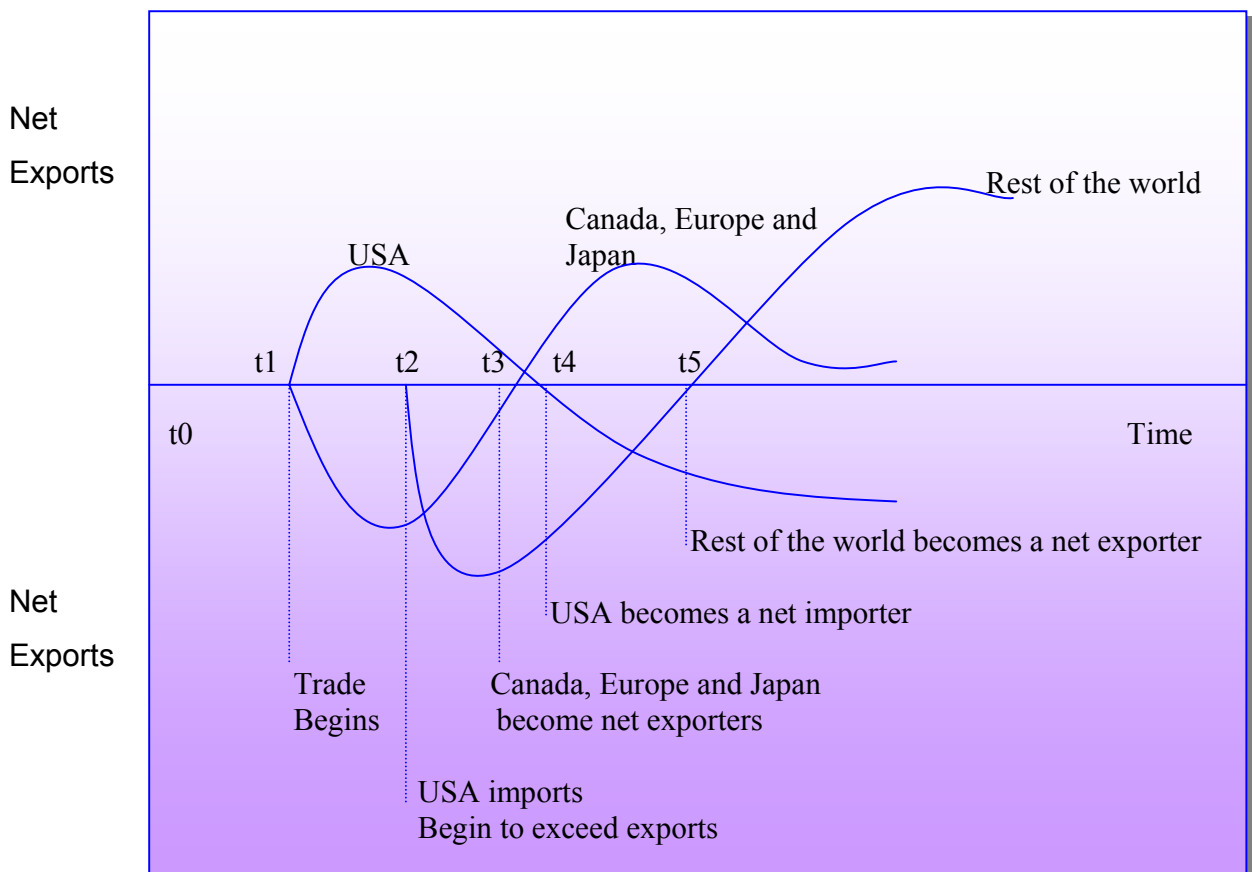
endlessly between different locations to secure and maintain their cost advantage. There are two underlying assumptions to the international product life cycle model. These are:

- Product innovations are costly and require large capital investments and skilled labour. For these reasons it was expected that foreign investment was the preserve of large firms.
- New products go through a defined life cycle (Sundaram and Black, 1995).

Rugman, *et al.* (1986) amplified the original product life cycle model. The same model is replicated in Paliwoda and Thomas (1999) and given below.

FIGURE 3.1

The international product life cycle



Source: Paliwoda and Thomas (1999, p.29)

The United States is assumed to be the original market in which the product was first produced. In slight contrast to the 5-stage model given above, Vernon's (1966) model had just three stages. Paliwoda and Thomas (1999) explain Vernon's (1966) model as follows: *"in stage 1 ...the new product is produced and consumed in the home nation. Exports take place. In stage 2 the maturing product can be produced abroad, perhaps in subsidiaries of the MNE (multinational enterprise). Some goods may start to be imported by the home nation. In stage 3 the now standardized product is entirely produced abroad, even by licensing. The home nation imports all of the good that it needs..."*

According to the international product life cycle theory the original country has a comparative advantage in the production of a particular good, but this advantage is subsequently lost to lower cost producers as the product becomes standardized (Sundaram and Black, 1995). The differences in the life cycle models may be in the number of stages and terminology used but fundamentally they are the same. The product life cycle approach to international business was based on assumptions that simply do not hold in the modern world of more and more homogenous international markets and easy access to information as well as technology. Like other models and theories before it, it was of very limited applicability in a by-gone era. After the period of the life cycle stages in the 1960's the stage was set for new theoretical approaches in the early 1970's. These new approaches were the internalization theory, the eclectic theory and internationalization theory.

3.4 INTERNALIZATION THEORY

Internalization theory is an extension of the international product life cycle theory rather than a repudiation of it. The major criticism of the product life cycle theory is that it is vague in terms of the trade-offs between the different foreign market entry methods of licensing, joint venturing and foreign direct investment as well as on the timing of mode switches. Not only that, but there is also abundant

evidence of firms that do not neatly progress through the defined life cycle process of introduction/growth, maturity, standardization and dematuring or decline, but rather exhibit haphazard progression between stages (Globerman, 1986). According to Buckley and Casson (1981) the choice international market entry mode is a function of the cost associated with each entry mode given the volume of business that a firm plans to undertake in a market. Each market entry mode has the following costs:

- Mode set-up costs. A one-off cost incurred when the mode is first used.
- Recurrent fixed cost associated with mode usage.
- Recurrent variable cost.

A given mode may have high fixed and variable costs at the planned volumes of business so that the cost of using that mode may not be recoverable. Therefore a firm internationalizes via the most cost-efficient mode at all times. Consequently a firm will graduate from the lowest fixed cost mode to the highest fixed cost depending on the volumes of international business conducted (Globerman, 1986).

Internalization theory is derived from appropriability theory that views multinational enterprises (MNEs) as developers of sophisticated technologies and information from which they benefit by appropriating. MNEs profit from the monopolization of certain knowledge (Calvet, 1981). A second tributary of internalization theory is the transaction cost theory that was developed by Coase (1937) and popularized by Williamson (1975). The basic premise of the transaction cost theory is that business activities conducted on behalf of the firm by external parties (the market) are costly and inefficient and therefore a firm stands to benefit by internalizing (doing the work by itself) as many activities as possible. Transaction/exchange costs have three attributes:

- *Asset specificity*. That is, an asset used in a transaction cannot be used in another transaction without loss of revenue.
- *Ambiguity*. That is, there is uncertainty in an arms-length transaction because of the tendency toward opportunistic behaviour such as cheating,

delaying or misrepresentation on the either party designed to improve their advantage.

- *Frequency of interaction.* That is, parties to a transaction are likely to interact frequently resulting in greater policing costs.

The greater the asset specificity, the higher the frequency or the greater the uncertainty, the greater the transaction cost and therefore the greater the incentive for the firm to internalize that transaction/market (Sundaram and Black, 1995). Thus, a firm will continue to internalize transactions until it reaches a point where the marginal cost of internalization exceeds the marginal revenue of internalization (Jones, 1996).

A firm internalizes or brings under its control both upstream and down stream industries that provide inputs into its production process in one way or another when the cost of continuing to do arms-length business with them exceeds the cost of owning them out right. The argument is that a firm can do business more efficiently if it owns all the suppliers of inputs that have to do with its production process, because dealing with disparate entities is far more costly for the firm in terms of the frequency of transactions, the opportunistic behaviour of suppliers and the firm's own overheads associated with dealing with these external suppliers. Thus market imperfection is at the centre of a firm's decision to internationalize.

Therefore, from the perspective of internalization theory, a firm internationalizes or expands extra-territorially because the transaction costs associated with international intermediate product markets (goods and services required within the production process) can be reduced by bringing these markets within the firm. Therefore, internationalization of a firm is a natural result of acquisitive self-interest. A complex vertical and horizontal web of cross-border transactions and value-adding activities are brought under the administration and co-ordination of a single multinational enterprise. The idea is that the firm must have a distinct comparative advantage or compensating advantage so that it is able to overcome

the cost of foreignness (Buckley and Casson, 1998). For example, a firm can invest in a foreign subsidiary rather than licensing its product and by so doing spread its products abroad while maintaining control over the product in the firm, resulting in better returns to the firm (Ball *et al.*, 2002). At the heart of this theory are the location effect that is concerned with where the value-adding activities will take place, and the ownership effect that is concerned with who owns and controls the said value-adding activities (Ghauri, 2000). Internalization theory in essence, is concerned with market entry choice modes. Why does an international firm choose one internationalization mode over another?

Internalization theory suffers from a number of shortcomings that limit its usefulness in explaining international business behaviour. To start with, the theory is based on market failure as being the reason for internationalization of the firm when in reality market success plays a great role in a firm's decision to internationalize. Secondly to suggest that cost minimization is the principal reason for internationalization is a gross oversimplification and even a misrepresentation of real world dynamics of international business behaviour (Jones, 1996).

The theory is inward looking, in other words, it focuses on the firm's production process only and ignores the power of the final product market in internationalization because this market cannot be internalized within an organisation's hierarchy. Internalization recreates the very imperfection it initially sets out to overcome by establishing a monopolistic organisation that reduces market efficiency and increases social costs (Itaki, 1991). Therefore, a refinement and an enlargement of internalization theory are found in the eclectic theory of international production.

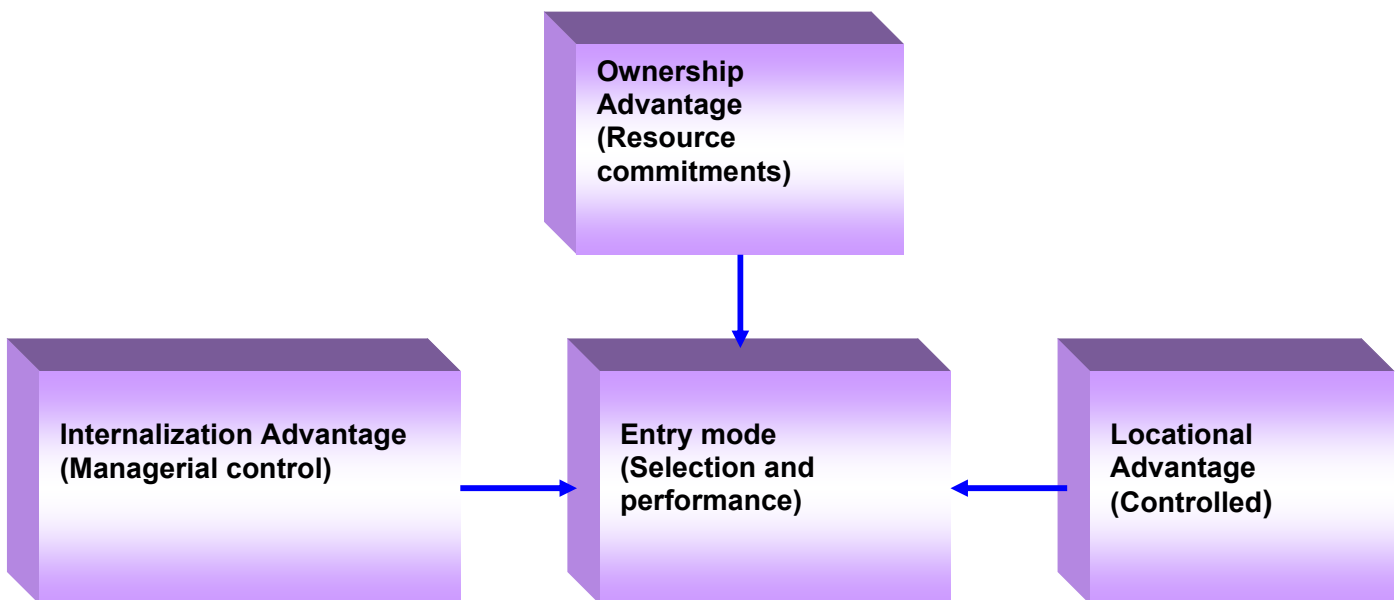
3.5 ECLECTIC THEORY OF INTERNATIONAL PRODUCTION

According to Dunning's (1977) eclectic theory, international production will occur if a firm has three kinds of advantages:

- *Ownership-specific advantages*. This refers to an organisation's access to tangible and intangible assets that foreign competitors do not possess or do not have in the same measure.
- *Internalization advantages*. These are advantages that accrue to the firm from the internal use of its ownership-specific advantages rather than renting them out to external parties in the form of licensing agreements or franchising or even simply exporting their product from their home base.
- *Location specific advantages*. This refers to advantages that a firm gains by locating its production or part thereof to foreign locations. Favourable government incentives or regulations in different locations and the desire to reduce transaction costs are a strong incentive for relocating production to particular off-shore locations. Figure 3.2 below is a representation of the eclectic process.

FIGURE 3.2

The Eclectic Theory Model



Source: Woodcock, Beamish and Makino (1994, p. 258)

Dunning's (1981) explanation for international trade is that *"the more a country's enterprises possess ownership-specific advantages, the greater the incentive to internalize them; and the more these enterprises find it profitable to exploit the advantages outside their national boundaries, the more likely they are to engage in foreign direct investment.... A country's involvement in international direct investment then becomes a function of the ownership and internalization advantages of its enterprises relative to those of other nationalities and its location-specific endowments relative to those of other countries"*.

Further to that he put forward four stages of economic development in relation to foreign direct investment. Table 3.1 below explains this relationship.

TABLE 3.1

Inward and outward direct investment and stages of Economic development.

	Inward Investment	Outward Investment
Stage 1	O-f Substantial I Substantial L-d Few	O-d None I Not Applicable L-f Not Applicable
Stage 2	O-f Substantial I Substantial L-d Improving	O-d Few I Few L-f Few
Stage 3	O-f Declining/more Specialised I Declining L-d Declining	O-d Growing I Growing L-f Growing
Stage 4	O-f Declining/more Specialised I Declining L-d Declining	O-d Increasing I Substantial L-f Increasing

Key to symbols: O = Ownership Advantages; L = Locational Advantages;
I = Internalization Advantage; F = Foreign; D = Domestic.

Source: Dunning (1981, p. 8)

- **Stage 1**

There is no outward investment because the country's firms do not have ownership-specific advantages and there is no inward investment because the country does not have locational advantages in the form of a large enough market for foreign manufactured products or it does not have the infrastructure or skills base to support foreign direct investment. Therefore it relies on foreign imports. Examples of countries in this stage include a multitude of developing countries.

- **Stage 2**

Foreign direct investment becomes evident because of an improvement in the locational disadvantages identified in stage one due perhaps to government policy directed at such improvements. Outward investment remains negligible because of continued weak ownership specific advantages. Exporting of some kind will occur for example in the extractive and primary industries. Examples of countries in this stage might include Brazil, Jamaica, Trinidad and Tobago.

- **Stage3**

Inward investment on a per capita basis begins to decline because indigenous firms have become more competitive and therefore are able to compete more effectively with locally based foreign affiliates of multinational enterprises. Outward investment begins to increase because of the increased ownership specific advantages. Examples of countries in this stage might include Germany, United Kingdom, Japan and Netherlands.

- **Stage 4**

Net outward investment exceeds net inward investment because the country's firms now have strong ownership-specific advantages. Example might include countries like USA and Sweden.

The Eclectic framework is supported by a number of researchers, at least in principle, namely Hennart (1982); Anderson and Gatignon (1986; Klein *et al.* (1990); Woodcock *et al.* (1994) and Banerji and Sambharya (1996). However, there are some detractors, most notably Itaki (1991) who argues that the ownership advantage in the model excludes the cost of acquiring that advantage, such that the net gain of possessing that advantage may in fact be negative. Furthermore, ownership specific advantages and location specific advantages are inseparable and to separate them amounts to double counting. From a methodological perspective, he warns of the danger of multifactor analysis under just three headings.

It has also been criticised for its limited predictive power and overstating the overall cost of conducting international business, hence the underlying view that international business is the preserve of large multinational corporations that have enormous ownership-specific advantages (Jones, 1996). However, there is an increasingly large volume of international business activities that are conducted by small firms that may or may not possess the enormous ownership-specific advantages of their large counterparts, and yet they are not given serious consideration in the eclectic theory.

3.6 PORTER'S DIAMOND MODEL

Porter (1990) does not so much provide a theory of international trade as he does a model that offers prescriptions for international competitiveness. Porter's model is concerned with providing an answer to why a nation achieves international success in a particular industry. Porter argues that there are four national conditions that determine international success or lack thereof. These are:

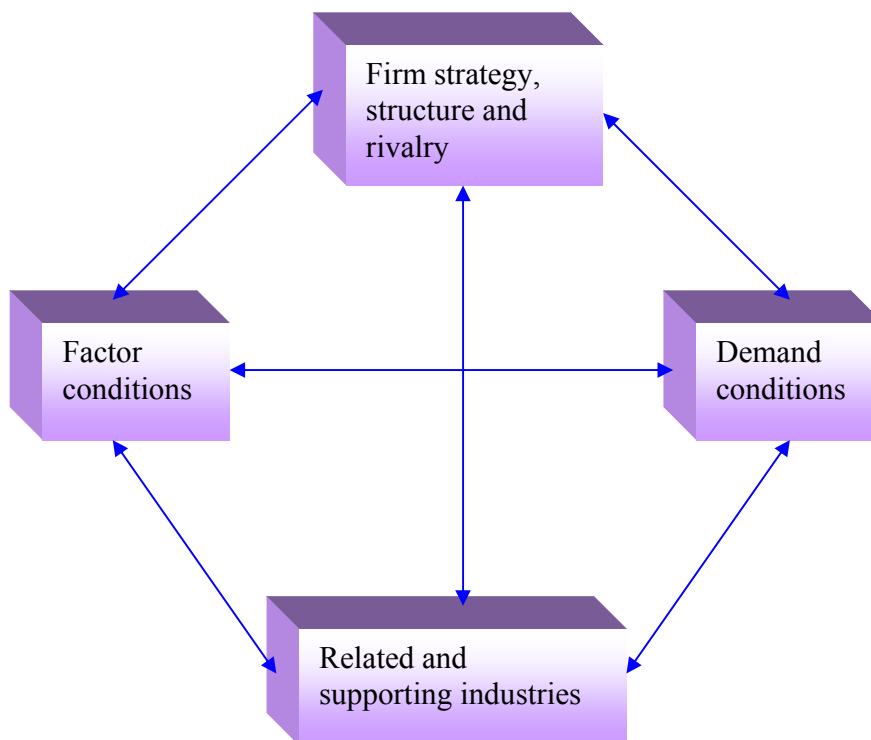
- *Factor conditions*. That is, the country's store of production factors such as skilled labour and the infrastructure necessary to compete in a given industry.

- *Demand conditions*. That is, the nature of the domestic market demand for the product.
- *Related and supporting industries*. That is, whether or not there exist internationally competitive supplier and related industries in the home market.
- *Firm strategy, structure and rivalry*. That is, the conditions that relate to how companies are formed organised, and managed as well as the intensity with which local firms compete.

These conditions are represented as interrelated facets of a diamond in figure 3.3 below.

FIGURE 3.3

Diamond model of international competitiveness



Source: Porter (1995, p.27)

Porter argues that a firm's international competitiveness is derived from its domestic competitiveness. That domestic competitiveness is a function of locational advantages, government support/facilitation within the industry, chance events which act in the industry's favour, particularly as they relate to factor conditions and firm strategy, and the quality of support and related industries. Domestic demand for an industry's products will grow up to a point of saturation leading to aggressive efforts at internationalization. Intense domestic rivalry leads to international advantage because of the improvements and innovation that it stimulates in local firms. These innovations are the basis of national competitive advantage against firms of other nations.

Added to this there is a requirement for buyers to be sophisticated enough to demand innovative products from local firms otherwise a nation's firm's will be at a competitive disadvantage *vis-a-vis* those nations that have more sophisticated consumers that require high quality products from their firms. This encouragement of domestic firms to perform to high levels can translate to national competitive advantage in international markets. National advantage can also be lost when a nation's firms no longer match the innovation required in the industry due to changes in factor conditions or superior competition from newcomers. In this model, government is viewed as incapable of creating competitive industries but rather as having a facilitation role in creating conditions that make it possible for national firms to acquire a competitive advantage.

3.7 INTERNATIONAL PORTFOLIO THEORY

International business activity has also been explained from an international portfolio theory point of view. The theory is variously referred to as diversification theory and financial theory. It is also another product of international theory building of the 1970s. According to international portfolio theory, international business investment decisions occur as a result of market imperfections. Without market imperfections, that is to say, under conditions of perfect competition,

international investments would not take place. Firms seek to maximize their flow of profits while minimizing their risk exposure to the economic shocks arising in the domestic market and this they do by investing in different foreign markets (Rugman, 1971).

However, a number of limitations have been noted with the international portfolio approach. First, the application of portfolio theory to international business diversification has been difficult to substantiate. There is contradictory evidence coming from studies on international portfolio diversification regarding the gains of diversification to an individual investor (Calvet, 1981). Second, changes in currency values and foreign market taxes on dividends have the effect of cutting or even erasing foreign diversification gains. Further to that fixed assets located in foreign countries can impose certain risks on the international firm that were not present in the domestic market so much so that the gains of diversification may be non-existent or even negative. Also individual investors may in fact be able to diversify their asset portfolios on an international basis more cheaply than through an internationalized firm (Globerman, 1986).

3.8 INTERNATIONALIZATION THEORY

Benito and Gripsrud (1992); Anderson (1993); Chandra and Newbury (1997) contend that this stream of research draws on the behavioural theory of the firm, and in particular from the work of Cyert and March (1963) and Aharoni (1966). In Piercy's (1981) view, internationalization is an outward [extra-territorial] movement of a firm's operations. However, Welch and Loustarinen (1988) define it as: "*the process of increasing involvement in international operations*". (Calof and Beamish, 1995) define it as: "*the process of adapting a firm's operations (strategy, structure, resource etc) to international environments*". The former definition more accurately portrays the process, while the two latter definitions presuppose an incremental approach to internationalization, about which there has been considerable debate and a general lack of agreement. This research

assumes the view of internationalization as including any of the following either individually or jointly: exporting, licensing, foreign production and joint international participation arrangements.

Andersson's (2000) classification of international business research identifies two basic approaches, which are: the economic and the process view. His view is broader than that envisaged under firm internationalization theory. Research on firm internationalization falls into two broad classifications that are as follows: The "*establishment chain*" school also variously referred to as the Uppsala-models, (U-models), the Nordic school, the incremental school or the stages model. The second category of research is the innovation-related models, (I-models).

Internationalization theory has also borrowed some ideas from the FDI research stream, and mainstream economic theory. The internationalization theoretical framework was first developed by Johanson and Wiedersheim-Paul (1975) in their study of four Swedish firms, in which they observed that firms move along an "establishment chain" when internationalizing. Their work was a culmination of separate research activities dating back to the 1960s for example Aharoni (1966) Perlmutter (1969) and Pinney (1970). Johanson and Wiedersheim-Paul (1975) identified four stages through which an internationalizing firm passes, and these are:

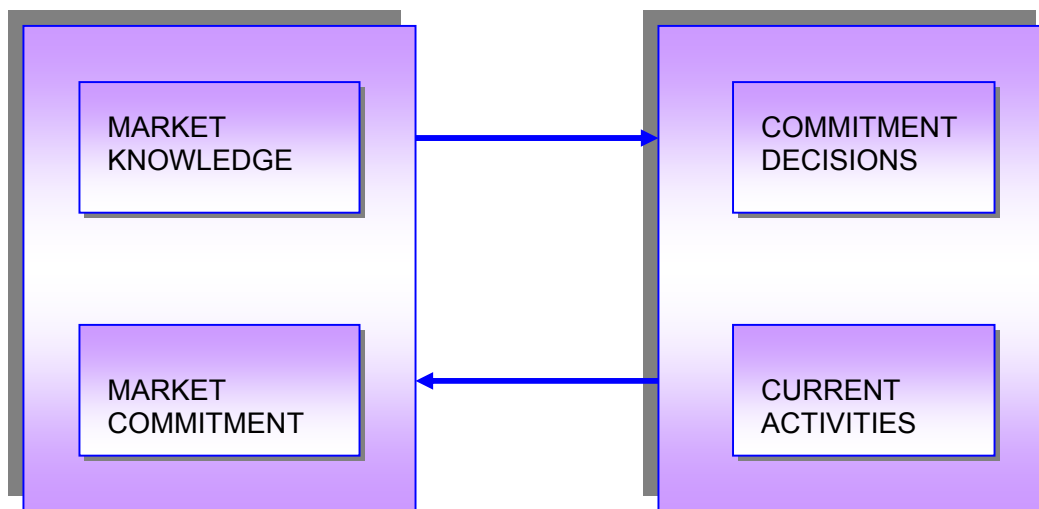
- No regular export activities.
- Export via independent agents.
- Establishment of a foreign sales subsidiary.
- Establishment of a foreign manufacturing plant.

They did however concede that it was possible that some stages could be skipped, a fact often missed in literature which is critical of the establishment chain. Internationalization was expected to be a series of incremental decisions. Market entry was expected to begin with physically close and geographically close markets and then "*fanning out*" (Vernon, 1966). Johanson and Vahlne (1977) refined this model to make it more dynamic and went on to suggest that

internationalization is a function of the relationship between market knowledge, commitment decisions and current activities. Figure 3.4 below summarizes the process.

FIGURE 3.4

The basic mechanism of internationalization: state and change aspects



Source: Johanson and Vahlne (1977, p. 26)

The firm is assumed to increase commitment (both the amount of resources and the degree of resource specificity) to a market owing to a reduction in perceived risk that comes about through increased experiential knowledge as distinguished from objective knowledge, which is less critical to the internationalization decision. Internationalization then is a gradual unidirectional learning process along a continuum. The process is assumed to be gradual because of a lack of resources, lack of information and a lack of experience. The model has gained currency in a number of studies from a diverse range of countries such as: Australia, Japan, Finland, United States, Hawaii, Singapore, South Africa, and Turkey. Wiedersheim-Paul *et al.*, 1978; Barrett, 1986; Yoshihara, 1978; Johanson and Nonaka, 1983; Luostarinen, 1980; Bilkey and Tesar, 1977); Cavusgil, 1984; Denis and Depelteau, 1985; Hook and Czinkota, 1988; Hakam *et*

al., 1993; Calof and Viviers, 1995 and Karafakioglu, 1986). In fact, so influential has the incremental model been that the vast majority of international business literature since 1977 presuppose it when dealing with different aspects of the subject, even for example, government export assistance programmes (Crick, 1995).

3.9 INNOVATION-RELATED MODELS

Innovation-related models view the process of internationalization as a series of innovations within the organisation (Simmonds and Smith, 1968; Lee and Brasch, 1978 and Reid, 1981). The I-models are based on a widely accepted consumer behaviour model (the innovation-adoption model) developed by Rodgers (1962) and refined a number of times since. The innovation-adoption model argues that potential adopters of an idea must go through a series of steps (awareness, interest, evaluation and trial) before taking some action or adopting an idea (Belch and Belch, 1995). Similarly, a firm will move from one level of innovation to another as it internationalizes. Innovation-related models are based on the same fundamental assumptions of the Uppsala models (U-models) and should be viewed as extensions of them. However, the I-models are different from the U-models in that they focus on the "*characteristics and behaviour of the decision maker and the requirements of the firm in terms of allocated resources at each stage of the adoption process*", as being the most critical factors in the internationalization process (Johnsen and Johnsen, 1999).

Andersen (1993) claims that except for the initiating mechanism, the difference between the various I-models is tautological. The Johanson and Wiedersheim-Paul (1975) model has four stages, the Bilkey and Tesar (1977) model has six stages, the Cavusgil (1980) and Reid (1981) models both have five stages. Table 3.2 below provides a detailed analysis of I-models. It is interesting to note that Leonidou and Katsikeas (1996) do not make the distinction between U-models and I-models in their view of empirical modes. They simply treat all the models

under the common heading of stage models. It must be conceded that while the distinction between U-models and I-models has not been well articulated in received literature, it does exist. The term for both models is U-I models. Table 3.2 below provides a concise comparison of U-models and I-model.

TABLE 3.2

A Summary of the Evaluation Based on the Explanation Criteria

Aspects Evaluated	U-Model	I-Model
Type of scientific explanation	Genetic (Historicist)	Genetic (Historicist)
Boundary assumptions -Space (units of analysis). -Time	No specific assumptions Unbounded	Small and Medium-sized Firms Bounded
Causality - Model type - Explanatory variables	Causal cycles One variable Firm's knowledge	Explanation chains Many different; Most Organisational Characteristics
Utility-Scientific - Assumptions about Firm's behaviour	Based on behavioural theories, Incremental decision-making process, with little/no influence from Competitive and market factors	
-Variables properly defined - Precise statements of the Relations between stages	Examples of possible Indicators, no operational Definitions. Considerable vagueness	unclear arguments for Classification procedures And for operationalization Of explaining variables basically intuitive Arguments
Utility-Intuitive	Logic-axiomatic. The usefulness is stressed for Management and governments	

Source: Andersen (1993, p. 221)

3.10 DISCUSSION AND CRITICISMS OF THE U-I MODELS OF INTERNATIONALIZATION

The theoretical and methodological robustness of the U-I models of internationalization have been questioned most notably by Anderson (1993), who argued that their intuitive appeal is not matched by their scientific appeal. Given their lack of explanatory power as well as the incongruence between the theoretical and operational levels, it is surprising that these models have received such enthusiastic acceptance in the vast majority of received literature (Reid, 1984; Anderson, 1993; Crick, 1995). This perhaps more than anything demonstrates the need for greater analytical rigor in the study of international business. Sullivan and Bauerschmidt (1990) tested the incremental internationalization hypothesis and their conclusion was that the empirical evidence did not support this hypothesis.

Other studies provide confirmatory evidence of incremental internationalization hypothesis after presupposing its validity (Wiedersheim-Paul *et al.*, 1978; Buckley *et al.*, 1979; Loustarinen, 1980; Denis and Depelteau, 1985; Crick, 1995). Some have accepted the incremental hypothesis but with modifications (Lamb and Liesch, 2002). However others have found evidence that contradicts the incremental internationalization hypothesis (Turnbull and Valla, 1986; Turnbull, 1987; Ayal and Raben, 1987; Hedlund and Kvernerland, 1983; Sharma and Johanson, 1987; Millington and Bayliss, 1990). Clark *et al.* (1997) have offered the explanation that the studies that contradict the incremental hypothesis, notably Turnbull and Valla (1986) and Turnbull (1987) suffer from two weaknesses, which are:

- They ignore an organisation's learning over its lifespan and rather focus on only a small part of an organisation's life, and therefore they are unlikely to capture the internationalization process in the way that the originators of the model, Johanson and Wiedersheim-Paul (1975), did

when they studied four organisations from their inception to the early 1970s covering a period of 50 - 100 years.

- The investigation was limited to one market as opposed 20 nations used in the Johanson and Wiedersheim-Paul (1975) study.

Both these arguments are untenable because they equally apply to those studies that corroborate the incremental hypothesis. Therefore if both arguments on either side of the hypothesis are rejected, then what remains is an uncorroborated hypothesis. Sullivan (1994) amongst others such as Bilkey (1978); Toyne (1989); Anderson (1993) and Leonidou and Katsikeas (1996), laments the lack of unanimity on any theory of internationalization. His major concerns were:

- The separation of theory building from applied research. In this he is well supported by Daniels (1991) who argues that theory building must precede applied research otherwise a mosaic of independent theories and models will result making integration difficult. Such is the position that the discipline of international business finds itself in.
- The methodological problems that have compromised the integrity (validity and reliability) of the empirical results. Sullivan (1994) used the measurement of the degree of internationalization (DOI) to demonstrate the arbitrary nature of received research on internationalization.

However, it is noteworthy that while a unifying theoretical framework is assumed to be a desirable development in the field, a strong case for it has generally not been made. The development of sound theoretical frameworks has been hampered by the failure of scholars to question the fundamental assumptions in received literature, many of which are flawed (Tversky and Kalnerman, 1974). International business is far more complex and multidimensional than envisaged in most studies and therefore requires a cross-national approach (Daniels, 1991;

Leonidou and Katsikeas, 1996). It also requires a consolidation of the various interdisciplinary approaches (Dunning, 1989; Buckley, 1990).

The concept of psychic distance which envisages firms venturing into psychically close markets before going to more psychically distant markets in the internationalization process is a fundamental aspect of the U-I models of internationalization. However empirical evidence on the practical and theoretical usefulness of the concept is contradictory. Several studies have found support for the concept (Johanson and Wiedersheim Paul, 1975; Johanson and Vahlne, 1977; Bilkey, 1978; Reid, 1981; Wiedersheim-Paul *et al.*, 1978; Davidson, 1980; 1983; Terpstra and Yu, 1988; Chetty, 1999). However, the more convincing evidence has come from studies that have questioned the usefulness of concept of psychic distance in modern international business activity (Maclayton *et al.*, 1980; Norstrom; 1990; Benito and Gripsrud, 1992; Sullivan and Bauerschmidt, 1990; Sharma and Johanson, 1987).

An interesting *caveat* concerning the concept of psychic distance is provided by O'grady and Lane (1996) in their study of Canadian and US-based retail firms in which they argued that even in the most psychically close countries, there are some fundamental differences that pose a serious threat to those firms that blindly assume psychically close markets are extensions of the domestic market. However, in an age of electronic communications and ever increasing market homogeneity across the world, the concept of psychic distance is of questionable relevance (Czinkota and Ursic, 1987; Oviatt and McDougall, 1994; Bell, 1995; Jones, 1999). In any case, both anecdotal and empirical evidence suggests that market selection is often less systematic than that suggested in literature (Lee and Brasch, 1978; Papadopoulos and Denis, 1988).

U-I models of internationalization envisage the process as being a gradual one up the establishment chain owing to the learning process in the acquisition of experiential knowledge (Johanson and Vahlne, 1977). However, in reality the

patterns of internationalization are many and internationalization often proceeds rapidly (Hedlund and Kverneland, 1985; Young, 1987; Welch and Loustarinen, 1988; Bonaccorsi, 1992; Lecraw, 1993 and Christiansen and Jacobson, 1996).

U-I models of internationalization concern themselves with an inter-stage progression of the firm rather than intra-stage aspects. Micro-internationalization processes have been identified intra-stage. Dalli (1994) and Chetty (1999) have found evidence of firms completing their entire internationalization process within one stage. Furthermore the determination of boundaries between stages has presented a problem since these are not clearly defined (Turnbull 1987; Andersen 1993).

The domestic market is assumed to be the initial market of interest under the U-I models of internationalization. It is reasoned that the domestic market is the "*training ground*" for the firm and that the learning as well as the resources gathered there will help it internationalize (Johanson and Wiedersheim-Paul, 1975; Johanson and Valhne, 1977; Bilkey and Tesar, 1977; Wiedersheim-Paul *et al.*, 1978). However, there is growing evidence that there are many firms (particularly high technology firms) that start their operations by entering foreign market (Oviatt and McDougall, 1994; Bell, 1995; Christensen and Jacobson, 1996; in Madsen and Servais 1997).

Bonaccorsi (1992) argues that in some cases it is easier for a small firm to internationalize than to expand domestically because some parts of the domestic market may be more foreign than some markets abroad. A further challenge to conventional wisdom on market expansion comes from Kaynak and Kothari (1984) and Karafakioglu (1986) who contend that the longer a firm operates on the domestic market the greater its inertia to internationalize and some who target the domestic initially may fail altogether (Oviatt and McDougall, 1994).

A related yet contentious issue pertains to firm size. The original studies by Johanson and Wiedersheim-Paul (1975) and Johanson and Valhne (1977) focused on large multi-national enterprises (MNEs) that were presumed to have the resources and the maturity (arising from business experience) required to undertake international business activity. However, many other studies have focused on small to medium firms due to the fact that internationalization activity is in evidence in small firms too and that they constitute a substantial proportion of firms in any economy (Bilkey and Tesar, 1977; Czinkota, 1982; Lim *et al.*, 1991; Crick, 1995). However, it must be said that a solid case about the importance of firm size as a variable in internationalization cannot be built either way.

The relationship between firm size and export propensity has been discussed extensively by Bonaccorsi (1992) and Calof (1994). Bonaccorsi (1992) suggests that there is no agreement in literature on the proposition that "*export intensity is positively correlated with firm size*" but nevertheless his findings reject this proposition. Several other studies corroborate the position that export intensity is not positively correlated with firm size (Bilkey and Tesar, 1977; Czinkota and Johnston, 1983; Calof, 1994).

On the other hand, a number of studies do support the proposition that firm size positively correlated with export intensity (Cavusgil and Nevin, 1981; 1987; Reid, 1983; Christensen *et al.*, 1987; Culpan, 1989). Others have even found a negative relationship (Cooper and Kleinschmidt, 1985; Gripsud, 1990; Calof 1993). The question then is: *why is there so much contradictory evidence regarding the impact of firm size on the internationalization process?*

Calof (1993) argues that part of the problem lies in the methodologies that were used in each study as well as the construct operationalizations that were used which were very different in each case with the result that the findings were also different. For example, the definition of what constitutes a small firm was different

in every case. As a result of these discrepancies it is not as yet possible to make conclusive judgements regarding the contribution firm size in the internationalization process.

Another challenge to the U-I models of internationalisation comes from service management theorists who contend that the traditional linear conceptualizations of internationalisation under these U-I models is out of sync with empirical evidence of the internationalization behaviour of service firms, which in fact demonstrate a u-shaped relationship between experience and the propensity to integrate foreign market entry modes (Erramilli, 1991).

However, in spite of the shortcomings of the U-I models of internationalization, they have nonetheless made an important contribution to the general understanding of how firms internationalize. Early starter firms (that is, firms with a low degree of internationalization and operating in a market with a low degree of internationalization) identified by Johanson and Mattson (1988), typically exhibit the Uppsala development process. The principle therefore has merit even if it is not empirically supported in every case.

Thus, the argument by Clark *et al.* (1997) that the "*establishment chain*" model of the Uppsala school may be unique to the Scandinavian environment, lacks credibility. Furthermore, Buckley and Chapman (1997), in defence of the uppsala model contend that "*it was never the intention of the uppsala school to suggest that there was any unique way of internationalising, even an optimal way. Much less was their intention to be prescriptive in suggesting that firms must (or even should) follow a particular pattern. Unfortunately, many less subtle observers have suggested that internationalization is somehow deviant when it does not follow a sequential orderly, stages pattern. In the real business world many experiments are carried out and a single, optimum path of internationalization is unlikely to survive the myriad of conflicting pressures on firms*".

3.11 ALTERNATIVE PARADIGMS

Three complementary internationalization research streams have developed alongside the U-I models of internationalization. These are: the antecedent paradigm, the strategy paradigm and the network paradigm.

- **The antecedent paradigm**

This school of thought focuses on the motivations for exporting and pre-export activities. On the motivation side, studies have focused on export stimuli. Wiedersheim-Paul *et al.* (1978) distinguish between internal and external export stimuli. Internal stimuli includes:

- The desire for stronger profit performance (Simpson and Kujawa, 1974; Pavord and Bogart, 1975; Johnston and Czinkota, 1982).
- The desire for risk reduction (Hirsch and Lev, 1971; Joynt, 1982; Erramilli, 1991; Johanson and Vahlne, 1990).
- The desire to make use of excess production capacity (Wiedersheim-Paul *et al.*, 1978; Diamantopoulos and Schlegelmilch, 1990).
- The desire to take advantage of an exportable product (Tesar and Tarleton, 1982).
- The desire to effectively exploit the organisations human resource skills (Reid, 1981; Diamantopoulos and Schlegelmilch, 1990).
- Management orientation (Samiee *et al.*, 1993; Reuber and Fischer, 1997).

External stimuli on the other hand includes:

- Government exports promotion incentives Christensen *et al* (1987).
- Unsolicited export orders (Simmonds and Smith, 1968; Wiedersheim-Paul *et al.*, 1978; Sullivan and Bauerschmidt, 1988)
- Information from Trade associations and missions (Pinney, 1970; Kaynak and Kothari, 1984).

- Foreign Travel (Dichtl *et al.*, 1984).
- Increased domestic competition (Diamantopoulos (1992).

The other variables that are considered under the general heading of antecedents are: firm characteristics, decision-maker characteristics, and environmental characteristics (Katsikeas and Piercey, 1993). This school of thought posits that the questions of why and how a firm internationalizes can best be answered through a good understanding of the factors that precede the export decision. Perhaps the most important contribution of this stream of research, is the demonstration that the trigger to internationalization is a multi-factorial phenomenon with each factor having a different valence which when summed at a point in time will catapult the firm on a mutable internationalization path.

- **The strategy paradigm**

This school of thought is more concerned with the transactional efficiency of an organisation's business hence issues of structure, environmental threats and opportunities, strategy, economic costs and benefits take centre stage. This school is firmly rooted in the transaction cost economics paradigm. Research has focused on multinational strategy (Bartlett and Ghoshal, 1989; Hennart, 1991; Hamel and Prahalad, 1994), international market entry (Kogut and Singh, 1988; Agarwal and Ramaswami, 1992), collaborative ventures (Killing, 1983; Kogut, 1988; Lorange and Roos, 1990; Tallman and Shenkar, 1993), competitive advantage (Porter, 1987; Hamel and Prahalad, 1990) and a host of functional area research that has a bearing on international business. In general, the unit of analysis is the multinational enterprise (MNE). The predominant hypothesis advanced by this school is that a firm's internationalization should be understood in the context of its desire to minimise costs while maximising profits.

- **The network paradigm**

This stream of research represents the state of the art in internationalization research and is certainly the most exciting perspective in two decades. While the network approach is not new to business, its application to firm internationalization is. The network approach views market exchange as the result of interaction between discreet exchange relationships among market actors (Tikkanen, 1998). Firm internationalization therefore is the natural development from network relationships with foreign individuals and firms (Johanson and Mattson, 1988). A firm's network has great value as a source of market information and knowledge that would take a firm a long time to acquire and at great cost (Chetty and Campbell-Hunt, 2003). Networks therefore are a bridging mechanism that allows for rapid internationalization. Network theorists therefore conceive of an internationalization process, which is very different to the traditional establishment chain model.

By virtue of a firm's position in a network relationship, it can be "*chaperoned*" into the international arena by partners who have international operations and experience, even though the firm itself may not have formally and consciously decided to internationalize. It becomes an "*instant global*" by-passing the establishment chain evolutionary steps through a revolutionary process. This "*big bang*" approach as Buckley and Chapman (1997) term it, is evidenced in subcontractor firms following their main contractor partners (Andersen *et al.*, 1995; Banerji and Sambharya, 1996), technical consultancy firms following their partners Sharma and Johanson (1987), small computer software firms (Oviatt and McDougall, 1994; Bell, 1995; Coviello and Munro, 1995; 1997), imitation of industrial district neighbours Bonaccorsi (1992) and born global companies owing to management's international orientation (Madsen and Servais, 1997; Reuber and Fischer, 1997).

In view of the evidence of a radically different approach to internationalization under a network perspective, Madsen and Servais (1997), suggest that it is only

proper to use a firm's network as the unit of analysis rather than the firm itself when attempting to explain the process internationalization. The most interesting work on network theory and its relation to internationalization is provided by Johanson and Mattsson (1988). In their view, firm internationalization is a process by which a firm using its foreign network partners establishes and develops foreign market positions. This it achieves through:

- International extension. That is, entering new foreign markets by virtue of its relationship to new foreign network partners.
- Penetration. That is, expanding its resource commitments in those markets that it already has a presence.
- International integration. That is, co-ordinating its international network activities spread around a number of countries.

Further to that they developed a model through which firms were assigned a place depending on their internationalization behaviour. Table 3.3 below is a summary of the network model of internationalization.

TABLE 3.3

The network model of internationalization

Degree of firm Internationalization	Low	The Early Starter	The Late Starter
	High	The Lonely International	The International Among others
		Low	High
		Degree of market internationalization	

Source: Johanson and Mattsson (1988, p. 310)

- **The early starter**

This firm is typically new to international business and has little knowledge of foreign markets. It has limited and unimportant relationships with foreign firms. Consequently it relies on agents to penetrate foreign markets, leveraging their knowledge and established positions in those markets, while at the same time minimizing risk exposure to those markets. In this scenario, the foreign middleman or introducer makes market initiatives that generally will benefit the early starter firm. If demand grows phenomenally then there will be need for the establishment of a subsidiary but in order to minimize risk it will be a scaled-down production facility and further demand can be met via long term supply contracts that by their nature are tightly structured networks. Additional markets will be entered depending on their need for knowledge development as well as their use of existing market assets. In other words new markets need to be similar to previous markets already served (Johanson and Mattsson, 1988).

- **The lonely international**

In this scenario the firm is highly internationalized while the environment within which it is operating is not. The firm has knowledge and experience that will enable it to handle new foreign environments with ease, and be able to make resource adjustments less painfully than the early starter firm. It is likely to make large-scale investments in foreign markets as well as have the ability to diffuse its products rapidly in new markets and occupy a leadership position in a tightly structured network. By virtue of its leadership position in the network, it will be able to give its new network partners access to other national networks where it has a presence. It is likely to lead new internationalization efforts and play the role of network co-ordinator as well (Johanson and Mattsson, 1988).

- **The late starter**

The late starter firm has been a purely domestic market for a long time and is like to internationalize as a result of being “pulled out” by internationalized customers or suppliers who have invited the late starter firm to work with them on a foreign project, which can be a big project, in which case the initial resource commitment to a foreign market may be huge for the late starter firm. The high need for co-ordination in such a tightly structured network implies that the late starter firm has to establish foreign subsidiaries early compared to the early starter firm. For large firms, the late starter firm has a considerable difficulty joining an established tightly structured network and so it has to buy its way into one through acquisition of a firm within a tightly structured network. Without this intervention, the large late starter firm is likely to be less knowledgeable about foreign markets when compared to competitors and it is likely to have difficulty securing good network partners since such partners will already belong to an existing network and contractually bound to it (Johanson and Mattsson, 1988).

- **The international among others**

In this scenario the firm and the environment are both highly internationalized and further internationalizations result in marginal changes in the firm. Global oligopolies fit the description of the international among others. Production is specialized and co-ordinated across the world. High international market knowledge results in a swift establishment of subsidiaries. Its worldwide network positions give it influence over external resources such that it is able to assemble its products from a variety of suppliers rather than manufacture itself. It is able to adapt rapidly to changes in the environment and reallocate production activities along the network (Johanson and Mattsson, 1988).

However the Johanson and Mattsson (1988) model while based on some previous empirical data, was not itself tested empirically. It is not so much a process model as it is a classification model. For example, it does not give details of the direction progress along the matrix and it rests on fundamentally the same

assumptions that the Uppsala model of internationalization does at least in the case of the early starter firm, the late starter and the lonely international. In addition to that the theoretical appeal of the network approach is not universally matched by its practical appeal implying that network structures are culturally bound. The network is assumed to be relatively enduring (through contractual arrangements) and provides greater collective benefits for all network members. However, the cost to network members in terms of lost opportunities that would have been gained by switching to other more advantageous networks is ignored, so is the cost of co-ordinating, policing and maintaining the network. There is also the cost of membership in terms of the resources required by each firm to join the network and indeed the cost of opportunism within the network (Chetty and Campbell-Hunt, 2003).

3.12 SUMMARY

This chapter traced the development of international business theory from its early forms to its present state of the art. Classical trade theory was identified as the starting point with Adam Smith's (1776) theory of absolute advantage, which in turn was overtaken by Ricardo's (1817) theory of comparative advantage whose influence has been so powerful even to the present day. The Heckscher-Ohlin (1933) factor proportion theory was a refinement of the theory of comparative advantage. After the Second World War a new theoretical framework began to emerge in the form of FDI (foreign direct investment) theory. For the first time, the firm and not the nation became the unit of analysis. The product life cycle theories were developed out of this new FDI thinking and were an exciting research avenue of the 1960s. The 1970s could be regarded as the golden years of international business research because during this period the field experienced a sustained and fruitful growth of research enquiry. Several research paths intersected as much as they diverged. There was the transaction cost theory, then internalization theory, portfolio theory, internationalization theory

and eclectic theory. The 1980s and the 1990s may be regarded as the modern era of international business where the theories of the 1970s were increasingly questioned and new paradigms were introduced.

Network theory was applied to international business theory, as was strategic management theory. The small firm became an exciting unit of study since it was discovered to possess different qualities from its larger counterpart, the MNE (multinational enterprise) that made its international business behaviour different. The entrepreneur himself/herself was also the focus of that new found interest, the result of this was the coining of a new term, international entrepreneurship and this is today's exciting research avenue much as the product life cycle theory was in the 1960s and MNE internationalization theory was in the 1970s. Small firm Internationalization is the focus of chapter 4 below. In this chapter the emphasis is on understanding the internationalization process followed by small firms. Both chapter two and chapter three which are the two parts of our thesis topic have been building up to this point. Small business theory and international business theory converge at this point and a specific aspect of these two bodies of knowledge is of interest here and that is the process aspect of small firm internationalization.

Chapter FOUR

THE SMALL FIRM INTERNATIONALIZATION PROCESS

4.1 INTRODUCTION

Small firm internationalization provides the interface between entrepreneurship in the small firm and international trade and internationalization theory. Thus, small firm internationalization also referred to as International entrepreneurship, is a relatively new research stream that recognizes the great role played by the small firm in international business. Increasingly there is a realization that small firms are not constrained by the lack of resources and experience in taking advantage of international opportunities as suggested in traditional FDI literature (Etemad and Wright, 1999).

In fact, Wright and Ricks (1994) go further to suggest that the success of domestically oriented entrepreneurs is dependent on their ability to be internationally competitive even if they do not do so on a large scale. This, apart from the sheer numbers of small businesses that exist in most economies and accounting for the greatest volume of economic activity, may explain the increased international activity of small formerly domestic market only focused entrepreneurs. It may even be argued that given their ubiquity, the probability that any new business going international will be a small business is extremely high. International entrepreneurship therefore is poised for explosive growth and so is research on the subject.

International entrepreneurship is defined by McDougall and Oviatt (2000) as: *“a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”*

Ibeh and Young (2001) have modified Stevenson *et al.*'s (1989) definition that offers a more limited definition of international entrepreneurship viewing it only in the context exporting. Thus they define export entrepreneurship as: *“The process by which individuals, either on their own or inside organizations, pursue export market opportunities without regard to the resources which they currently control, or environmental factors which they face”*.

International entrepreneurs therefore are: *“business persons who take specific proactive action to overcome inherent problems and difficulties associated with international business activities. Their action, however, is both facilitated and constrained by ongoing processes of institutional relations in both the home and host countries. These institutional relations may be defined by the social and business networks in which these transnational entrepreneurs are embedded, political-economic structures and dominant organizational and cultural practices in the home and host countries...”* (Yeung, 2002)

This view of the international entrepreneur combines both the FDI and network perspectives of international entrepreneurship as well as the constraints within which the function of the entrepreneur is discharged.

Brush (1995) makes the observation that in spite of their collective economic might, small businesses on the whole (including the long established businesses which often constitute the majority of small firms) are generally late internationalizers and their volume of international business is not commensurate with their domestic might and economic dominance. She further argues that misconceptions among domestic entrepreneurs about exporting are probably the greatest barrier to small firms unleashing their true potential on the world, and

that increased international entrepreneurial activity is beneficial in bringing about balanced social-industrial development.

The character of international entrepreneurship is sufficiently different from large firm internationalization or at the very least changing so as to elicit more discerning research enquiry. For one thing, there are interesting firm age and foreign entry speed dynamics. New international entrepreneurs are more innovative, opportunity seeking and are heavily influenced by the owner/founder in their international involvement (Brush, 1995; Karagozoglu and Martin, 2002). Autio *et al.* (2000) contribute to these observations about international entrepreneurship by adding some advantages that accrue to early internationalizers. These are:

- Freedom from constraining managerial routines that have been developed over long periods of time.
- Freedom to assume an international identity from the outset.
- Motivation to repeat international expansion in future because of the momentum created early for international business.
- Fast learning that will translate into fast international growth.

Smaller international firms have emerged as serious competitors against large firms in certain niche markets (Fillis, 2001). Increasingly entrepreneurial firms are able to acquire foreign market knowledge, financial, marketing and managerial resources and competitive advantages through collaboration with domestic and foreign network partners (Johanson and Mattsson, 1988, Coviello and Munro, 1997). Recent evidence suggests that entrepreneurial international firms have a high awareness of foreign market risks and are able to manage these risks effectively (Shrader *et al.*, 2000). The export-only form is still the most preferred method of foreign market engagement among many international entrepreneurial firms even though there are also many exceptions within industries and across industries (Bell, 1995; Brush, 1995; Burgel and Murray, 2000 and De Chiara and Minguzzi, 2002). Some new international entrepreneurial firms are born

international contrary to received wisdom from MNE (multinational enterprise) theory (Oviatt and McDougall, 1994; Bell, 1995 and Madsen and Servais, 1997).

From a managerial perspective, there are a number of ways in which international entrepreneurship is exciting. The human capital of the owner/founder is the source of the firm's differential advantage (Manolova *et al.*, 2002). The owner founder is in possession of what McDougall *et al.* (1994) refer to as "*an unusual constellation of competencies*", that he/she has to combine exceptionally well to give rise to an international firm. These individuals are seen as enterprising, self-confident and aggressive and often their motive for internationalization is not necessarily immediate financial gain but learning and risk avoidance (Prefontaine and Bourgault, 2002).

A characteristic of international entrepreneurs that is often noted is an "iron will" or a "never-say-die attitude" that see international entrepreneurial firms succeed against the formidable challenges encountered in international business activity (Etemad and Wright, 1999). Sometimes they use what Johannisson and Monsted (1997) refer to as a "know-who" strategy before using a "know-how" strategy process in their internationalization. In other words some small entrepreneurial firms start by learning international business through networks before going out on their own. The unique characteristics of small businesses as well as the uniqueness of their situations of necessity make their style of international business different. Some of the unique differences between small and large businesses that have a bearing on international behaviour are given in table 4.1 below

TABLE 4.1

Characteristic differences between large firms and small entrepreneurial firms that bear on international behaviour

Characteristic	Small Entrepreneur	Large firm
Planning orientation	Unstructured/operational	Structured/strategic
Flexibility	High	Low
Growth absorption Capacity	Limited	High
Risk-orientation	High	Low
Managerial processes	Informal	Formal
Learning and knowledge Absorption capacity	Limited	High
Impact of negative Foreign market effects	More profound	More manageable
Competitive advantage	Human capital-centred	Organisational capital-centred

Small firms generally do not spend a great deal of time on planning their internationalization activities. Furthermore, their planning orientation is likely to be unstructured or semi-structured and project-by-project based (Brush, 1995). Large firms by contrast expend a great deal of time and resources in planning for international business activity and the planning view is long term. Modern entrepreneurial firms tend to internationalize their activities relatively early in their development and sometimes so early that they have not developed their reputations in the market and that in turn affects their ability to raise the necessary volumes of capital required for multi-market international expansion.

What adds to swift entry and exit from foreign markets is the size of the resources that have been committed to those markets.

The swift foreign market entry can in part be explained by previous international experience of the entrepreneur, relatively new and unrestrictive routines that allow swift planning. Additionally, foreign market risk assessment by small firms tends to underestimate the size of the risks involved and over-estimate the firm's ability to manage those risks, hence the swift move to international markets once the decision to internationalize has been made, and sometimes with catastrophic results (Ogbuehi and Longfellow, 1994; Shrader *et al.*, 2000 and Bridgewater and Egan, 2002).

However, generally speaking, not only do small entrepreneurial firms have a high-risk appetite, they also have developed ways of dealing with foreign market risks through for example networks with domestic and international partners that help to mitigate the effects of hostile environments (Johannisson and Monsted, 1997; Burgel and Murray, 2000). Nevertheless, Obben and Magagula (2003) present an interesting but contrary view in their study of Swaziland small firms where they found that exporting firms are more risk-averse than non-exporting domestic firms. Both sides of the argument have one thing in common, that it may in fact be more risky for a small firm to remain a non-international firm.

The capacity of entrepreneurial firms to absorb rapid international growth is relatively low and therefore exporting tends to be the preferred entry mode and the number of markets entered tends to be limited to manageable levels (Lu and Beamish, 2001; Fillis, 2002 and Chetty and Campbell-Hunt, 2003). The managerial processes in small entrepreneurial firms are largely informal and highly personalized. Therefore the entrepreneur relies on tight personal supervision that often involves a great deal of travel (as much as 70% of the time or more) between the different sites where operations are located (Tsang, 2001).

There is evidence to suggest that small firms are fast learners and that small high growth firms use active forms of learning (Sadler-Smith *et al.*, 2001). However, even with those advantages, small firms however entrepreneurial have a lower capacity to harness the huge volumes of information compared to their larger counterparts, by virtue of their size and therefore they tend to specialize in narrowly defined areas of business where their resources as well as their learning and knowledge capacities can be better focused.

The impact of negative foreign market effects is likely to be more profound for the small firm than for the large firm. For example the cost of foreignness weighs more heavily on a small firm and more so if it is very young because it can take a long time and money before establishing foreign market legitimacy that will give the market and other actors such as distributors enough confidence in the small firm to do levels of business that will make its foreign market operations profitable enough (Bugel and Murray, 2000; Lu and Beamish, 2001). But until such foreign market confidence is achieved, the firm will often be financing an unprofitable operation in the short-run and to sustain this requires large financial reserves that small entrepreneurial firms often lack, and cannot secure from banks and other financiers because of the limits to which they are prepared to fund debt/loss and high-risk enterprise. In addition to this exchange rate fluctuations and delay or non-payment by foreign customers for goods and services rendered or accelerated market changes weigh more heavily on the small firm than they do on large firms (Tannous, 1997).

The source of an international entrepreneurial firm's competitive advantage is its human capital mainly in the person of the entrepreneur himself/herself or other key managers. What the entrepreneurial firm lacks in resources it makes up for in its specialized expertise, personalized attention and innovation in the sense of improvising to dealing with the resource constraints that the firm faces (Manolova, *et al.*, 2001). The essence of entrepreneurship is profiting from uncertainty, creation, and as Stevenson and Jarillo (1990) put it, pursuing

opportunities without regard to the resources currently under the firm's control. By contrast large firms are able to buy their competitive advantage because of the relatively large financial resources at their disposal.

However, the differences here outlined do not imply that the ability of small firms to engage in international business is going to be slow and incremental in nature as suggested by the Uppsala school of thought in general, but rather that the forms and pace at which the internationalization of entrepreneurial firms takes place will be different. For example because of their unique situations, entrepreneurial firms may hop from market to market, or enter markets unconventionally or use networking as a their internationalization strategy or exhibit some other behaviour to manage their disadvantage.

Kaggindu (2002) suggests that one way that small entrepreneurial firms may use to manage both domestic and foreign risk is to use what he termed an "octopus" strategy where a firm engages in many and unrelated businesses at once, the idea being to facilitate survival by switching attention between the individual businesses depending on their performance or prospects. Attention moves from the business that is experiencing difficulties to one that is posting good or promising good performance. Similarly small international entrepreneurs may use different market entry combinations for risk minimization purposes (Clark, *et al.*, 1997; Petersen and Welch, 2002). However, Lu and Beamish (2001) contend that exporting combined with other market modes results in poor performance when compared to either export only or foreign direct investment options.

Whatever the impact of the differences between large firm and entrepreneurial small firm internationalization, one thing is clear, international entrepreneurial firms have a higher growth rate than any form of business organization. Lu and Beamish (2001) in their study of internationalization and performance of SMEs (Small-to-medium enterprises) found that the growth rate of international entrepreneurial firms over a period of one year was as much as 344% compared

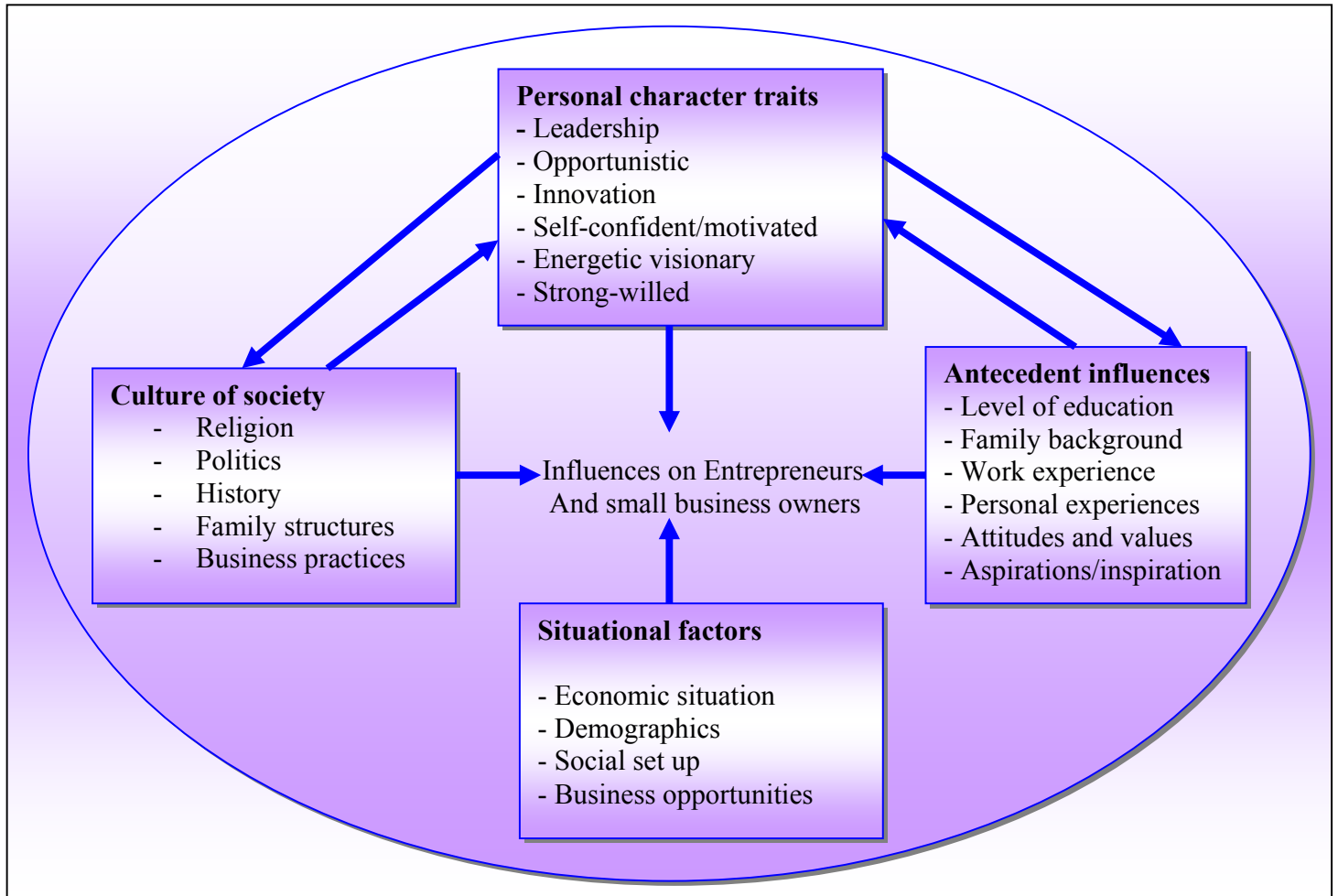
to their domestic-market focused counterparts. Of course the rate of growth is industry related and firm specific. But it seems likely that this high rate of growth is among other things a function of their fast learning ability, possession of a competitive advantage and the urgent need to reach as many markets as possible within their capacity to take advantage of a window of opportunity to market a product with a short life cycle (Mehran and Moini, 1999; Autio, *et al.*, 2000 and Chetty and Campbell-Hunt, 2003).

4.2 THE ENTREPRENEURIAL FIRM INTERNATIONALIZATION PROCESS

Only a limited amount of work has been done in the area of putting details to the actual process by which entrepreneurial firms internationalize. While there is more widespread agreement that the Uppsala model of internationalization does not accurately portray entrepreneurial internationalization, only a few models that are very short on detail or of suspect generalizability have been advanced. Many studies advocate network internationalization as a more viable alternative without really going into the process specifics (Bell, 1995; Madsen and Servais, 1997; Human and Provan, 1997; Johnsen and Johnsen, 1999; Chetty and Blakenburg-Holm, 2000; Fillis, 2001; Lu and Beamish, 2001 and Chetty and Campbell-Hunt, 2003). A good starting point in analyzing the internationalization process in a small entrepreneurial firm is to examine the antecedents to the process because this helps to put the process behaviour more holistically.

FIGURE 4.1

A model of antecedents to entrepreneurship



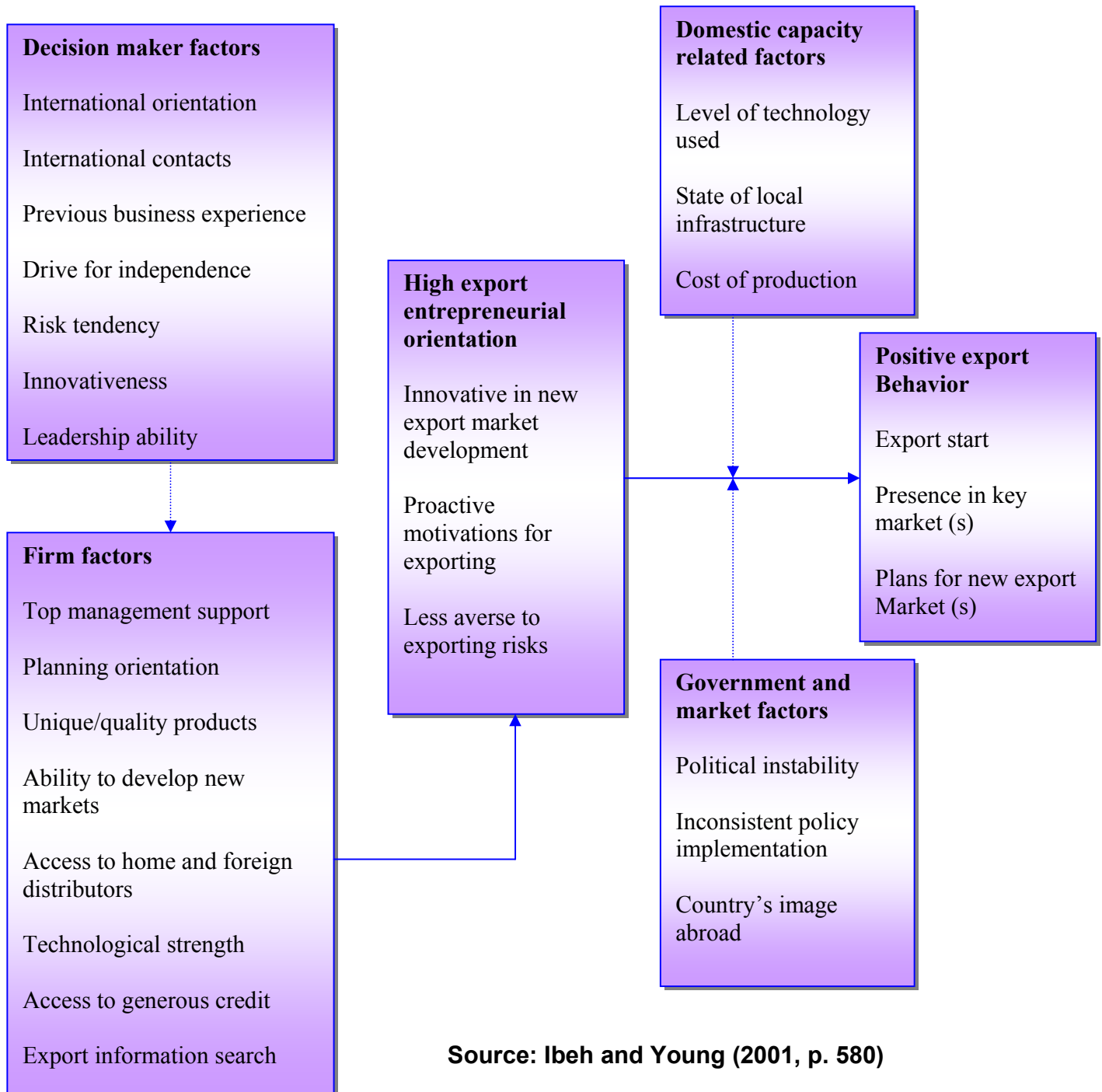
Source: adapted from Burns (2001, p. 25)

The entrepreneur as an individual is already an “influenced person” before coming to the firm and that prior influence helps shape his/her activities in the business and his/her entire view of the world and the role that he/she should play in that world either individually or through the agency of the firm. A combination of situational factors, personal character traits, antecedent influences and the culture of his/her society all come to bear upon the individual. However, once in the firm the entrepreneur will have an additional set of factors to contend with that give impetus to the decision to internationalize the firm.

Figures 4.2 and 4.3 below are models of antecedent requirements for international entrepreneurship to occur.

FIGURE 4.2

A model of export entrepreneurship



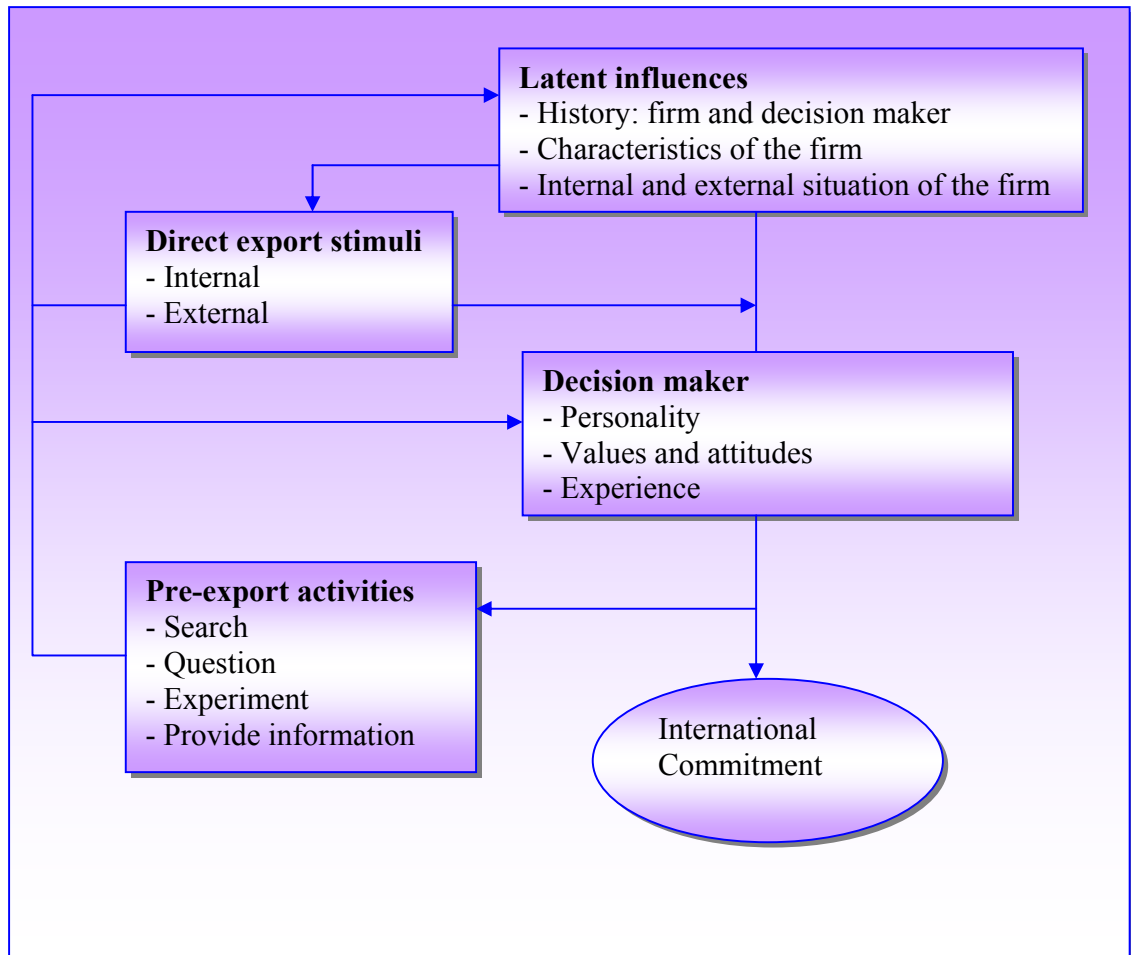
Source: Ibeh and Young (2001, p. 580)

The view taken in figure 4.2 above is a developing country perspective. While the model's shortcoming is that it only captures a small part of the international entrepreneurial process (that is, the antecedent part) and that it is a static model, it nevertheless is a good starting point to view the dynamics involved in international entrepreneurship. All the variables identified in all four constructs (decision maker characteristics, firm characteristics, domestic and capacity related factors as well as government and market characteristics) must be positive or favourable for successful internationalization to take place.

The difference between the Ibeh and Young (2001) model versus the Czinkota (1982) model is that the Ibeh and Young (2001) model considers a wider range of factors that come to bear the entrepreneurial firm's decision to internationalize and therefore presents a more realistic picture of the issues at play. However, the Czinkota (1982) model adds two important dimensions that are ignored in the Ibeh and Young (2001) model and these are the question of export stimuli and that of pre-export activities. Czinkota (1982) suggests that foreign experimentation is an effective means of learning appropriate export routines and in this view he is supported by Naidu and Prasad (1994) who contend that valuable export experience can be obtained through foreign market experimentation.

FIGURE 4.3

Antecedent influences to internationalization

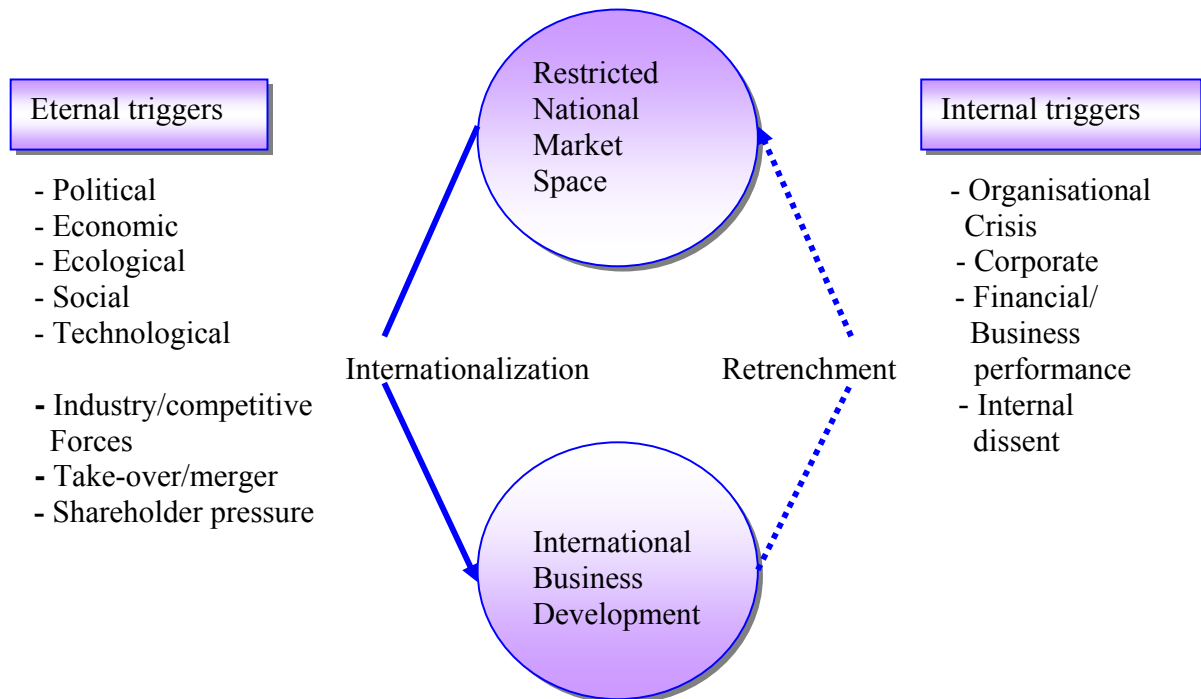


Source: Czinkota (1982)

What follows below is an examination of the various process models.

FIGURE 4.4

The internationalization process

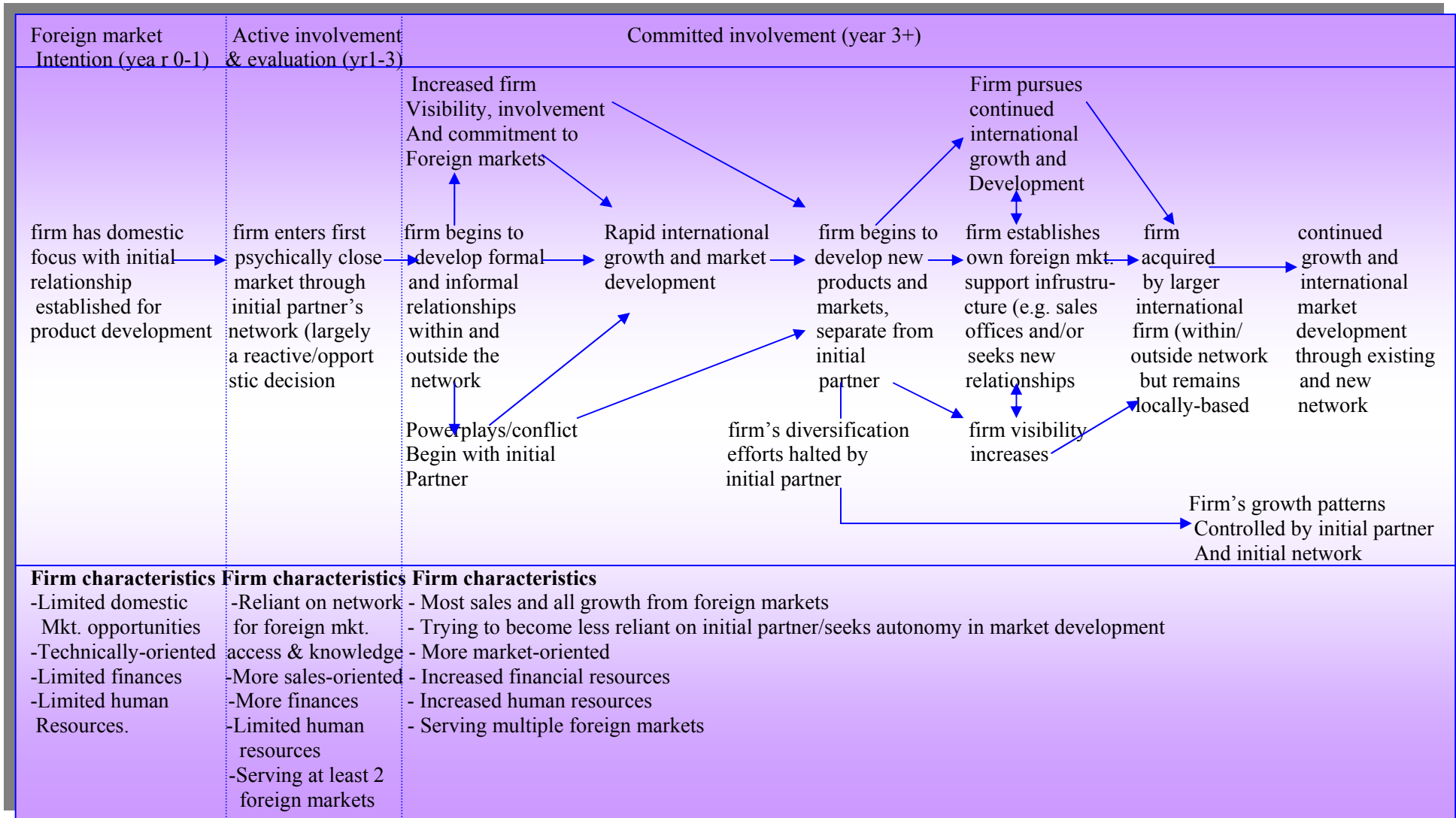


Source: Ellis and Williams (1995, p. 51)

Like Czinkota (1982), Ellis and Williams (1995) conceive of an internationalization process that is initiated by a set of internal and external triggers, but unlike Czinkota (1982), they give a more detailed picture of what the specific triggers may be. However no empirical work is cited to indicate the importance of each trigger in the process, nor the relationships amongst the triggers. These are not the only omissions of the Ellis and Williams (1995) internationalization model. The model is also silent about how the process unfolds. Nevertheless, its contribution is giving details of the possible triggers and the direction of the internationalization process. This model views the process of internationalization as a bi-directional process. The internationalization cycle begins with an outward movement of a firm’s operation to foreign markets and the cycle is completed when de-internationalization (retrenchment) takes place.

Figure 4.5 below is a network perspective of the internationalization process.

FIGURE 4.5



Source: Coviello and Munro (1997, p. 380) ** the model has a slightly different appearance due to space constraints

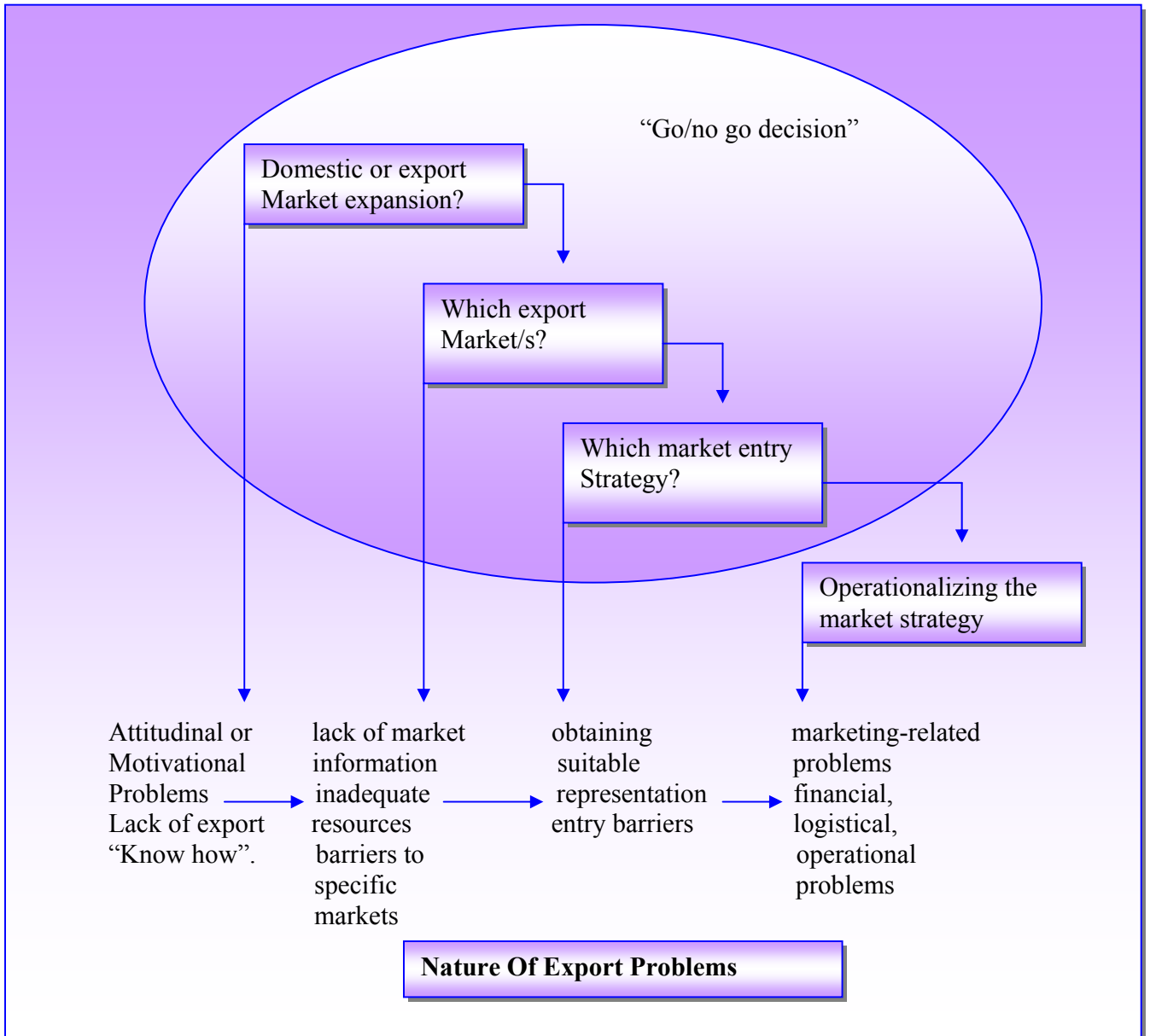
For Coviello and Munro (1997), the Uppsala model of internationalization is essentially sound, it must be complemented with a network perspective of firm behavior. Their model suggests that the internationalization process is not the long and torturous evolutionary process suggested by Perlmutter (1969) and Johanson and Weidersheim-Paul (1977), but rather the stages are compressed or as they put it: “ *The internationalization process of small software firms...is superimposed on the three stages of [Uppsala] internationalization...*” Coviello and Munro (1997).

According to the Coviello and Munro (1997) model of internationalization, the initiating mechanism or the triggers to the process are driven by network Partners as is the subsequent market selection and entry mode. This is in contrast to the independent firm where the factors given as internal and external triggers in the Ellis and Williams (1995) model will be the primary motivating factors of the process. Therefore the network internationalist need not have a great deal of their own resources or long business experience in the domestic market for them to successfully internationalize. They simply leverage the resources of the network that catapults them to foreign market entry modes and performance levels that would normally be expected of firms with long experience in the Uppsala model of internationalization.

However, what is not clear in this model of internationalization is whether all members of the network have so internationalized or more precisely how did the original member of the network internationalize. It is taken for granted that there was a network from the beginning that was already in an advanced state of internationalization. It is likely that the original form of internationalization in the individual firms before the network came into existence was in fact very different to what subsequent members experienced, as they internationalized through the network that was already in an advanced state of internationalization.

FIGURE 4.6

The export decision process

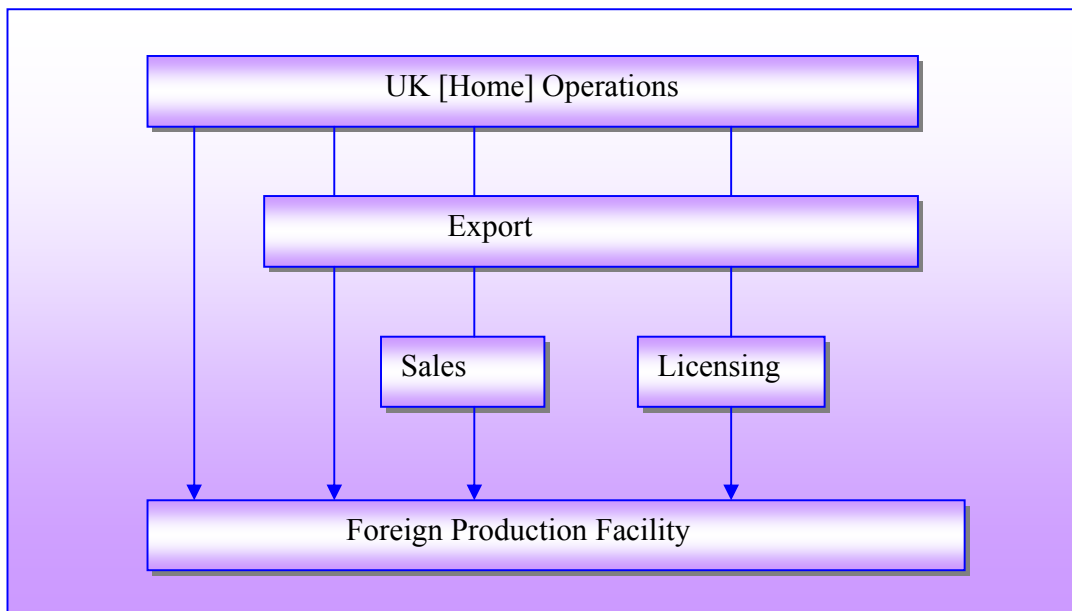


Source: Bell (1997, p. 587)

For Bell (1997), the export decision process is a problem-solution process. The model is based on the work of Rosson and Seringhaus (1991). Bell (1997) made a few improvements to the original model, but viewed it as essentially sound except to say that firms may not enter markets sequentially depending on whether or not they entered the market through a proactive or a reactive approach and that market selection and market entry often occur simultaneously. This model rests on the traditional assumptions of the stages theory. However, it is not very useful in detailing how the actual process unfolds. It captures only a very small aspect of the process and that is the market selection and entry aspect.

FIGURE 4.7

Routes to establishing a foreign production facility



Source: Clark, Pugh and Mallory (1997, p. 615)

Clark, *et al.* (1997) replicated the model of routes to internationalization by Buckley, *et al.* (1979).

- Route 1 is foreign production (53%).
- Route 2 is export first followed by foreign production (18%)
- Route 3 is export first followed by a sale's subsidiary and then foreign production (14%).
- Route 4 is export first followed by licensing and then foreign production (5%)

Then percentage figures in parentheses indicate the frequency of the usage of each method of foreign market entry. The model is not an internationalization process model *per se* but rather a model that captures the most preferred routes market entry for United Kingdom firms. However, mode selection is nevertheless a small aspect of the internationalization process. The results of the research by Clark *et al.* (1997) contradict the stages theory of internationalization and note that a number of firms with considerable international experience preferred exporting compared to any other entry mode.

The strength of this model can be summarized as presenting an internationalization process that recognizes that firms can enter any market at any level of involvement. However, the model says nothing about the forces at play in actually motivating particular modes of entry neither does it say anything about the process that is followed once an entry mode is selected. In short the model is simply descriptive and is of limited usefulness in our understanding of the internationalization process.

Other models that deal with the process are generally very simplistic dwelling on just a single aspect of the process without any attempt to deal with the process in a more holistic manner. They tend to be prescriptive in nature and may best be described as “how-to- export recipe books” (Root, 1987 and Miller, 1993). The Yip *et al.* (2000) model is an improvement on the Root (1987) and the Miller

(1993) models but it still fails to present a broader view of the process of internationalization. Fillis (2002) on the other hand presents a model that can best be viewed as detailing the requirements of small firm internationalization rather than detailing the process itself. Therefore these models have not been given more consideration here because they do not add material value to this discussion.

A comparison of the various internationalization process models is presented in chapter 7. The delay in presenting this comparison is accounted for by the need to facilitate an inclusion of the model advanced in this study into the said comparison so as to obtain a more complete picture of the differences among the process models of internationalization. The models above help in some small measure to the contribution of our understanding of the process of internationalization. However, even less is known about the market outcomes of the internationalization process than about the process itself. This is an area where a considerable amount of research enquiry is still needed.

4.3 SUMMARY

The chapter has looked at the emerging theory of international entrepreneurship and suggested that it is the interface of two research paths, namely international business and entrepreneurship/small business management. It was noted that there are certain firm and management characteristics that differentiate international entrepreneurship from multinational enterprise or large firm internationalization. For example, small firms have learning advantages that arise from their newness to international business. They are not constrained by old ways of doing things neither do they have relationships that hinder their progress to the international domain.

For international entrepreneurs, the export only option is the most preferred internationalization option because of the advantages that that offers to the firm particularly as it allows the firms to balance spectacular international growth rates with capacity to manage risks and resource allocation. Network relationships were also identified as one the strategic options that are used by small firms in increasing measure so that the resource and management constraints that they may face are mitigated against.

The internationalization process was represented as having antecedent factors to it that include: personal character traits, antecedent factors that shaped those personal character traits, situational factors and cultural factors. The second aspect concerning the process looked at models that have to do with the process of internationalization. Most of the models are rooted in traditional stage theory. The final aspect of the process should be the outcomes of the process and how they feedback into the entire process and provide a modifying influence to the process. This is the part that has received the least research attention.

What follows below in chapter 5 are the details of the research methodology.

Chapter FIVE

RESEARCH METHODOLOGY

5.1 INTRODUCTION

This study was undertaken to investigate how the process of internationalization takes place in small firms. The emphasis is on the actual process. Several studies have focused on the initiating mechanisms or the antecedents and on post internationalization behaviour. However there is not a great deal of work that has gone into explaining how the actual process of internationalization unfolds. As alluded to earlier in the introduction of chapter one, there is a cocktail of theories that deal with various aspects of internationalization with no single thread tying them into a composite theory of internationalization.

This work has both re-examined the validity of the leading works on the initiating mechanisms, in the context of the Southern African environment and incorporated their conclusions in so far as they assist in presenting a clearer picture of how the process of internationalization unfolds. The underlying question that begs an answer is: why is it important to know how the process of internationalization takes place? Knowledge of the process helps us do the following:

- To build a generalizable theoretical framework of international business.

- To predict with a certain degree of accuracy which firms are better prospects of internationalization.
- To target export assistance programs more accurately and effectively.

The specific research questions that were raised in chapter one and repeated here are:

- What are the motivating factors of internationalization?
- What is the effect of speed on internationalization?
- Does internationalization take place in predefined stages?
- How do the mechanisms that trigger internationalization operate?

Several hypotheses were generated and tested in an effort to find answers to the research questions raised. We start with research question 2 because the first two hypotheses relate to research question 2. Hypotheses 5 and 6 relate to question 1 and they appear later, hence research question 1 also appears then.

Research Question 2: What is the effect of speed on internationalization?

Hypothesis 1: Firms that internationalize rapidly are those that attach less importance to internationalization.

There is reason to believe that those firms that engage in elaborate planning are more likely to have higher risk perceptions and will therefore approach the internationalization decision in a slow incremental way (Johanson and Valhne, 1977). This is in contrast to the “*casual firm*” that is attracted by a naïve romance with international business (Lee and Brasch, 1978). This line reasoning seems to be corroborated by McDougall *et al.* (1994), who found that the longer a company remains in the domestic market, presumably while preparing for an

international adventure, the more likely it was to become disadvantaged by its own domestic systems and inertia, resulting in late internationalization .

Hypothesis 2: The “*windows of opportunity*” through which a firm internationalizes are constantly opening and closing alternately, leading to uncertainty on a firm's market entry mode.

This hypothesis challenges the assumption that the firm operates in a stable environment and that the firm's behaviour is a rational search for maximum economic benefit. The hypothesis further challenges the notion that the firm has free and undisturbed access to any market entry mode of choice. Anecdotal evidence seems to suggest that opportunities to use any particular market entry mode come and go owing to a wide variety of factors. Therefore environmental uncertainty and chance events play a role in shaping the form of internationalization that a firm will take.

Research Question 3: Does internationalization take place in predefined stages?

Hypothesis 3: Single stage internationalization is more prevalent than multi-stage internationalization in small to medium sized firms.

There is reason to believe that contrary to the establishment chain hypothesis of Johanson and Wiedershiem–Paul (1975), where firms go through several developmental phases, there is evidence to suggest that many small to medium sized firms may in fact be single stage firms throughout the course of their lives (Chetty, 1999). This same trend is also evident in those firms that use the network approach to internationalization. (Bell, 1995).

Hypothesis 4: All firms have an intra-stage establishment chain regardless of their route to internationalization.

This hypothesis is the logical conclusion of hypothesis 3. While the disagreements with the inter-stage establishment chain hypothesis are well documented Turnbull (1987) and Andersen (1993), it would be difficult for anyone to argue against an intra-stage establishment chain. As to what form this particular establishment chain takes is a subject for research enquiry, which enquiry has not been forthcoming.

Research Question 1: What are the motivating factors of internationalization?

Hypothesis 5: Personal networks are the single most important motivator of internationalization.

Many firms remain firmly domesticated in spite of having the “*right conditions*” for internationalization to take place. There is reason to believe that this may be explained in part by their lack of network relationships with foreign partners. In other words, a firm with the right conditions for internationalization to take place may not do so because it does not have foreign contacts that will provide information about foreign market opportunities and encouragement to exploit those opportunities. There is sufficient evidence to indicate that strong personal networks can precipitate internationalization (Oviatt and McDougall, 1994; Coviello and Munro, 1995 and Bell, 1995). Several studies have examined the initiating mechanisms of internationalization (Simmonds and Smith, 1968; Simpson and Kujawa, 1974; Bilkey and Tesar, 1975; Leonidou, 1988 and Jaffe and Pasternak, 1994). However, there have been a few studies that have considered the impact of personal relationships except in the broader context of corporate networks (Hakansson and Snehota, 1995; Coviello and Munro, 1997). The result has been that the impact of personal networks in the internationalization process has not been properly quantified.

Hypothesis 6: Firms that internationalize through networks do so at higher levels of market entry than those that do not.

Johanson and Valhne (1990) maintain that experiential market knowledge is the key to market commitment decisions. Because knowledge acquisition is a slow and gradual process, so will market commitment. However, in practice many firms are able to leverage the market-know how of network partners to arrive at higher levels of market commitment with little or no market knowledge of their own (Sharma and Johanson, 1987; Bonaccorsi, 1992; Bell, 1995 and Banerji and Sambharya, 1996). The network partners' market knowledge mitigates the cost of experiential knowledge on the part of the internationalizing firm (Eriksson *et al.*, 1997). Therefore, this study hypothesizes that networks circumvent or "*short-circuit*" lengthy market learning to arrive at high market commitment levels that would not be expected of novice firms under the traditional U-1 models of internationalization. This of course has implications on how we define firm maturity in the context of international firms. Is firm maturity defined by its age, or its stage in the development process or by what it does? Chetty (1999) seems to indicate that what an international firm does, defines its maturity.

Research Question 4: How do the mechanisms that trigger internationalization operate?

Hypothesis 7: Triggers of internationalization consists of two sets which feedback into each other.

The vast array of literature on export stimulus centres exclusively on those factors that cause a domestic firm to internationalize. A distinction is generally made between internal and external stimuli. Morgan (1997), further classifies export stimuli into:

- Internal – proactive export stimuli
- Internal – reactive export stimuli

- External – proactive export stimuli
- External – reactive export stimuli

However, there is reason to believe that export stimuli does not affect the firm at only one level as implied by the extant literature. This study hypothesizes that in the same way that there are triggers which cause a purely domestic firm to internationalize, there are also triggers that will cause specific market development in the foreign market. These two sets of triggers feedback into each other such that the expected valence of each trigger is altered in light of new information received from the foreign market. Therefore future internationalization triggers for different markets will be different. In other words, triggers are dynamic and assume different valencies at any given time, making it impossible to extrapolate valencies observed in one case onto another.

Hypothesis 8: Once the decision to internationalize has been made by a firm, intervening barriers can only slow the process but not stop it.

There is a stream of research that seems to suggest that once non-exporting firms adopt the decision to internationalize they generally press ahead the barriers notwithstanding (Doyle and Schommer, 1976; Lee and Brusck, 1978 and Samiee and Walters, 1990). It would be instructive to see how strong the corporate will is relative to the strength of export barriers.

Hypothesis 9: Probability theory best explains the course of action that will be taken by a firm in its intra-stage and post-stage development.

The hypothesis here is that firms do not progress along a particular route naturally as implied in the U-1 models of internationalization. As to which direction the firm will take depends on a number of conditions/ events occurring or not occurring and the probability of them occurring or not occurring. This implies that internationalization is a far more multi-factorial and complex

phenomenon than generally envisaged. It also implies that before probabilities can be assigned, all the possible events must be known, which is generally not possible. Therefore chance events have to be accorded special importance in any model of internationalization.

5.2 CONSTRUCT IDENTIFICATION AND OPERATIONALIZATION

The study identified 4 main constructs whose interactions have the most significant bearing on how the process of internationalization unfolds. These constructs are: firm characteristics and behaviour, managerial background and behaviour, motivational factors and environmental conditions.

An analysis of firm characteristics in relation to small businesses is important because small firms are not miniature big businesses but different types of business whose main difference centre on: management characteristics, resources and the range of strategic options available to them (Keats and Bracker, 1988). Firm characteristics have long been recognized as key to understanding the behaviour of a firm, namely, its industry Bornacossi (1992), its history, its goals and its product range (Weidersheim-Paul *et al.*, 1978). This construct was operationalized using the following variables: industry (Question # 1), company size (Questions #2 and 4), age (Questions # 3 and 6), sales performance (Questions # 4 and 5), and market coverage (Questions # 7, 22 and 23), (see questionnaire in appendix 12). These variables were measured using multiple-choice questions since this measure is most appropriate for classification purposes.

Management characteristics seem to be key differentiators between exporters and non-exporters (Simpson and Kujawa, 1974). The attitude of management to internationalization is highly correlated with previous foreign experience in the form of previous foreign residency, foreign language ability, foreign travel and the

level of education (Bilkey, 1978; Reid, 1981; Dichtl *et al.*, 1990; Reuber and Fischer, 1997 and Gray, 1997). This construct was operationalized using the following variables: manager age group (Question # 9), previous foreign experience (Questions # 10,11 and 12), risk perception, (Questions # 13,14,15 and 33), strategic planning orientation (Questions # 16,17 and 18). A combination of multiple choice questions and 7-point Likert scales ranging from “strongly disagree” to “strongly agree” were used.

The motivational aspects of the process consist of stimulants, Morgan (1997) and Stewart and McAuley (1999) as well as barriers Leonidou and Katsikeas (1996) and Leonidou (2000), operating in a complex relationship. This construct was operationalized using the following variables: motivators (Questions # 22,27,32,34 and 35), firm experience (Questions # 22,23,24,25,26,27,28,29,30), and partnerships (Questions # 32, 35c and 35i). Once again, a combination of multiple choice questions and 7-point Likert scales ranging from “strongly disagree” to “strongly agree” were used.

Cognisant of the fact that businesses do not operate in a vacuum, it is not surprising then that environmental influences were considered to play a significant and sometimes causative role in the whole process (Keats and Bracker, 1988). For instance, an unsolicited order can initiate interest in international business (Bilkey, 1978). Hostile environments, as is the case in many developing countries, necessitate an entrepreneurial orientation in the firm (Ibeh and Young (2001). This in turn may force a firm to manage risk through exporting (Pavord and Bogart, 1975; Bilkey, 1978 and Shrader *et al.*, 2000). Government influence in stimulating and supporting export business is an increasingly important dimension in the internationalization process (Simpson and Kujawa, 1974; Jaffe and Pasternak, 1994 and Crick, 1995), and so is the socio-cultural element (Leonidou and Katsikeas, 1996; Leonidou, 2000). This construct was operationalized using these variables: external support (Questions # 31, 35c, 35i), domestic market conditions (Question # 35d) and the cultural

influences (Question # 35h). The variables were measured using 7-point Likert scales except Question # 31, which used multiple-choice answers.

5.3 SAMPLING PLAN

The study was based on a simple random sample of South African and Zimbabwean small firms. This procedure was chosen because it was the most practical procedure to use given the fact that accurate records of the location, number and size (in terms of employment and financial measures) of small firms on a national basis are not available in this region. The sources are fragmented and often outdated. These limitations precluded the use of more desirable techniques such as stratified sampling. The most serious weakness of the simple random sampling is that it tends to yield larger standard errors thereby lowering the precision of the results (Malhotra, 1993). Therefore the study attempted to mitigate against this weakness by increasing the sample size as much as the available finance would allow and to ensure that there was no over representation of one group of firms or one region. Thus, the results presented in the study are reliable.

The criteria for inclusion in the sample were that the firm should be a current exporter and have two or more employees up to 120 employees. The number of employees was considered a better surrogate for size because this measure can be more easily applied cross-nationally than financial measures that are fraught with difficulty when applied internationally (Philp, 1998). The sample included both manufacturing and service businesses across a wide range of industries. Separating the businesses by sector would have yielded problems in securing a large enough sample in each sector to be representative. Therefore, the study risked the confounding of results due to sectorial differences. However, the cross-industry nature of the research ensures external validity of the results especially when compared to most previous studies that are industry specific. Several directories were consulted such as the Zimtrade directory of exporters,

the Africa product digest, the yellow pages online directory of exporters, the Ntsika directory of small business exporters and other informal sources.

Subsidiaries of large multinationals were excluded from the sample because they would contaminate the results since their internationalization was headquarter driven and could not accurately be captured in this study. The measurement instrument used was a multi-item structured questionnaire. This format was preferred because of the need to code and process data cheaply and quickly and to a lesser extent the need to reduce interviewer bias (Malhotra, 1993). 1900 questionnaires with a covering letter explaining the purpose of the study and encouraging co-operation, were sent by post and by email to internationalized small businesses and these yielded 494 usable responses representing a 26% response rate.

The Zimbabwean sample had 153 usable responses out of 600 mailings, while the South African sample had 341 usable responses out of 1300 mailings. This response rate was sufficient to explain relationships according to Driscoll and Paliwoda's (1997) rule of thumb method of sample size determination that requires 10 responses per construct. In this case we had 4 constructs and so we needed to have a sample size of at least 400. Good follow-up by telephone and by e-mail was instrumental in achieving this fairly good response rate. The key informants were either the managing director or a senior executive (for example, marketing director or export manager) selected by the managing director by virtue of their involvement in the export process.

TABLE 5.1

Sample size comparison with some previous internationalization research

Researcher(s)	Sample	Usable Responses	Response rate %.	Country	Research Design
Johanson and Weidershein-Paul (1975).	4	4	100	Sweden	Longitudinal
Bilkey and Tesar (1977).	816	423	52	USA	Cross-section
Cavusgil <i>et al.</i> , (1979).	N/a	473	N/a	USA	Cross-section
Barret and Wilkinson, (1986).	1057	307	29	Australia	Cross-section
Viviers <i>et al.</i> , (1996).	900	163	18	South Africa	Cross-section
Clark <i>et al.</i> , (1997).	N/a	25	N/a	UK	Cross-section
Mtigwe, (2003).	1900	494	26	Zim/SA	Cross-section

N/a = not available

Several influential studies were excluded from the comparative analysis because of their methodological weakness particularly in regard to sample design, sample sizes and response rates and industry coverage. Examples include the following studies: (Johanson and Valhne, 1977; Bell, 1995; Morgan, 1997; Coviello and Munro, 1997) among others. The methodological weaknesses identified have at least two important implications:

- They make external validation difficult (Leonidou and Katsikeas, 1996).
- They make reliable theory-building difficult (Andersen, 1993; Sullivan, 1994).

5.3.1 CROSS SECTIONAL DATA

Criticism has been made of the dependence on cross sectional surveys in the study of internationalization, when longitudinal designs might have been more desirable (Andersen, 1993; Leonidou and Katsikeas, 1996). However, cross sectional surveys continue to be the preferred *modus operandi* in all internationalization literature for practical reasons, in spite of their well documented weaknesses such as their failure to detect changes over time, their inability to collect large amounts of data and their general lack of accuracy when compared to longitudinal designs (Malhotra, 1993). This study is no exception. It employs a multiple cross sectional design because a longitudinal study requires years to organize and substantial financial resources not normally available to a single researcher (Leonidou and Katsikeas, 1996). The important issue with cross sectional surveys is to ensure accuracy in the measurement instrument (Sullivan, 1994; Brush, 1995). In this regard, the measurement instrument dealt with the following validity and reliability aspects:

5.3.2 INTERNAL CONSISTENCY

The reliability coefficient (Cronbach's alpha) of the instrument is 0.84 for those items that are of central interest to this research. This figure is well above the recommended minimum of 0.60 (Malhotra, 1993). This means that there is a good possibility of obtaining consistent results across different populations.

5.3.3 CONTENT VALIDITY

Content validity refers to how well the scale items cover the entire domain of the construct under investigation. Care was taken to isolate all those factors that were related to a particular construct, and to this end, scale items for a construct from different studies were combined to give as detailed a picture of the construct

under investigation. Furthermore a panel of 5 experienced academics was used to make contributions directed at strengthening constructs and the questionnaire in general. A pilot study was also carried out on 4 respondent firms who were considered representative of the target population of small exporters. The purpose of the pilot study was to ensure that the meanings conveyed in the questionnaire were indeed the intended meanings. It was also to allow the taking into consideration of additional factors that may not have been previously considered, and to generally debug the questionnaire so that it would be as clean as possible.

The subsequent analysis of the data used a sufficiently rich array of techniques designed to explore relationships among the variables identified as being relevant to internationalization. These included discriminant analysis which was appropriate in analyzing categorical data and isolating those variables which made the most important contribution to dichotomous categorizations, factor analysis which was useful in summarizing a huge array of variables under a few headings to enable easy articulation of the relationships between these selected variables and the phenomenon under investigation, in this case, internationalization. Other measures of association included chi-square tests, t-tests and correlation coefficients. This multi-measure, multi-method approach is recommended by several authors to the end that it will be possible to arrive at a better understanding of such a multi-factorial phenomenon as internationalization and achieve scientific theory-building (Andersen, 1993; Sullivan, 1994; Churchill, 1995 and Leonidou and Katsikeas, 1996).

5.4 SUMMARY

In this chapter, 9 hypotheses were generated for testing in chapter 6 that follows below. The method and rationale behind construct selection was outlined. Factor analysis and constructs used in previous research were used to guide the decision on which constructs should be included in the study. Four constructs were identified and these are:

- Firm characteristics and behaviour.
- Managerial background and behaviour.
- Motivational factors.
- Environmental conditions.

A simple random sample of 1900 was used for the study and it yielded a response rate of 26%. Of the 494 usable questionnaires 151 were from the Zimbabwean sample while 343 were from the South African sample. A cross sectional research design was used because it was deemed to be the most practical design available given the cost and time considerations. Cross sectional designs can yield valid and reliable results providing adequate precautions are taken. An internal consistency reliability figure exceeding the minimum recommended figure of .60 was obtained for the most important aspects of the research. Chapter 6 below is an outcome of the effort described above. At this stage the research results are presented generally without going into a discussion on their implications. The results are discussed in chapter 7 in light of the evidence found in other works and so comparisons are made there.

CHAPTER SIX

RESEARCH RESULTS

6.1 INTRODUCTION

This is the culmination of all the background work aimed at uncovering how small firms in the Southern African region go through the process of internationalizing their operations. Here the facts are separated from the myths as each hypothesis is tested and the results presented. A total of 38 summary tables are presented and these provide a comprehensive array of facts from which valid conclusions are made. Three of the hypotheses were confirmed while five were not confirmed. Some of the findings are so incongruent with traditional literature as to underscore the dangers inherent in taking for granted the research findings of studies from other environments that may be very different to that which the results are applied for practical usage.

Hypothesis 1:

Firms that internationalize rapidly are those that attach less importance to internationalization.

The specific questions used to test this hypothesis are:

Q16 – The decision to go international was the result of many years of preparation on the part of the company. Strongly agree/disagree

Q18 – Would you say that the start of your company's international business activities was planned or it was by chance?

Q25 – Our Company became involved in exporting: since the day we opened for business - after more than 20 years since the business started.

Further testing of this hypothesis was done using frequency tables, cross-tabulations and correlation coefficients of selected variables.

TABLE 6.1

Correlation between internationalization speed and firm export readiness

	Value	Significance
Export preparation	.107	.018*
Entry format (planned / by chance)	.289	.000**

** Significant at 0.01 * significant at 0.05

The results displayed in Table 6.1 indicate that the null hypothesis (that there is no relationship between internationalization speed and firm export readiness) must be rejected. A positive and significant relationship does exist.

TABLE 6.2

Export preparation time and speed of foreign market entry cross-tabulation

Export Preparation Time	Speed of foreign market entry		
	High	Low	Total
Short	187	44	231
Long	106	53	159
Total	293	97	390

N = 494 Missing values = 13 Neutral score = 91 Chi-square = 24.609 df. = 4 Sig. = .000

The results from Table 6.2 show that the firms that internationalize fast do not spend a great deal of time in preparation for international activity.

TABLE 6.3

Planning orientation and speed of foreign market entry cross-tabulation

Planning orientation	Speed of foreign market entry		
	High	Low	Total
Planned	239	56	295
By Chance	118	54	172
Total	357	110	467

N = 494 Missing values = 27 Chi-square = 59.376 df. = 4 Sig. = .000

While the majority of firms do not involve themselves in a great deal of preparation for international engagement, they do however enter international markets in a carefully planned and deliberate fashion. What is interesting to note is the fact that firms that internationalize purely by chance and doing so early in their organisation's life constitute a substantial proportion (25%) of the total sample.

TABLE 6.4

Frequency table of speed of foreign market entry

	Frequency	Percent
From day one	52	10.4
Less than 5 years	196	39.4
Less than 10 years	109	21.9
Less than 15 years	55	11
Less than 20 years	69	13.9
Total	481	96.6

N=494

Missing values = 13

The results in Table 6.4 reveal that most small firms internationalize within the first 5 years of their establishment. In fact, those internationalizing within the first 10 years of their existence amount to 72% of the firms. From the 10th year of existence, internationalization activity declines quite dramatically.

If we were to consider the amount of time spent in preparing for export activity as a suitable surrogate for importance attached to internationalization, then we can conclude that the hypothesis that: firms that internationalize rapidly are those that attach less importance to internationalization, is confirmed. However, when we consider whether or not internationalizing firms attach planning importance to their activities owing to deliberate and careful risk assessment, then we must conclude that this hypothesis is not true. Most small international firms are not carefree adventurers allured by a naive romance of international business as suggested by Lee and Brasch (1978), who found that almost 70% of small firms in their study exhibited non-rational behaviour in their adoption of the export decision. A separate but interesting observation relates to the preferred foreign market entry modes. Appendix 10 reveals that 86% of the firms enter foreign markets via the export only option. This may have possible implications on the speed with which internationalization takes place.

Hypothesis 2:

The “*windows of opportunity*” through which a firm internationalizes are constantly opening and closing alternately, leading to uncertainty on a firm's market entry mode.

Attempts at operationalizing this hypothesis were particularly troublesome and therefore rather than risking the use of unsuitable questions to test it and thereby compromising the quality of the results, the most prudent thing was to exclude the hypothesis from analysis altogether. That way the integrity of the results would be maintained.

Hypothesis 3:

Single stage internationalization is more prevalent than multi-stage internationalization in small to medium sized firms.

The specific questions used to test this hypothesis are:

Q17 – The most senior management of our company wish in future to change the way our company does international business, from being just an exporter to operating foreign subsidiaries. Strongly agree/disagree.

Q29 –For how long has your company used your current method of international business? From the beginning - within the last 20 years.

TABLE 6.5

Results to Q17

“The most senior management of our company wish in future to change the way our company does international business, from being just an exporter to operating foreign subsidiaries.”

	Frequency	Percent
Strongly disagree	109	21.9
Disagree	114	22.9
Mildly disagree	9	1.8
Neutral	71	14.3
Mildly agree	100	20.1
Agree	62	12.4
Strongly agree	29	5.8

N =494 Missing values = 0

According to Table 6.5, 47% of respondents were of the opinion that their company would not in future change their *modus operandi* in international business, which was primarily export-driven.

TABLE 6.6

Results to Q29

“For how long has your company used this method (current method in use) of international business?”

	Frequency	Percent
From the beginning	237	48
Within the last 5 years	153	31
Within the last 10 years	22	4
Within the last 15 years	39	8
Within the last 20 years	15	3

N = 494 Missing values = 28

The results show that most of the firms used the same method of export from the time that they started international business. Even when controlled for firm age the results were little changed and the same interpretation was arrived at. The evidence presented in Table 6.5 and Table 6.6 confirms our hypothesis that single stage internationalization is more prevalent than multi-stage internationalization for small to medium sized firms in the southern African region.

Hypothesis 4:

All firms have an intra-stage establishment chain regardless of their route to internationalization.

The specific question used to test this hypothesis is:

Q30 – Our experience in each foreign market has generally followed this pattern: Patterns 1- 5 as detailed below in table 6.7.

TABLE 6.7

Results to Q30

	Frequency	Percent
Pattern One Confidence Discouragement with low initial sales Perseverance Turnaround of fortunes Enthusiastic commitment Confidence to start new foreign market search	226	46
Pattern Two Confidence Immediate success Enthusiastic commitment Set up manufacturing unit in that foreign market	28	6
Pattern Three Uncertainty about new market Encouragement from first sales results Discouragement with later sales results Perseverance No change in fortunes Dropped that market and looked for another	64	13
Pattern Four Uncertainty about new market Encouragement from first sales results Enthusiastic commitment Confidence to start search for new markets	133	27
Other patterns of no interest to this study	15	3

N = 494

Missing values = 28

The evidence in table 6.7 above, does confirm our hypothesis that companies do follow some form of intra-stage development pattern when establishing themselves in foreign markets. Pattern one is by far the most dominant pattern, with 45% of the respondents more or less following that pattern, while pattern four is a distant second with a subscription rate of 27%.

Hypothesis 5:

Personal networks are the single most important trigger of internationalization.

The specific questions used to test this hypothesis are:

Q21 – What actually triggered your company’s decision to go international more than anything. Please rank in order of importance.

Q27 – What has been your most important source of information about foreign market opportunities?

TABLE 6.8

Frequency table of the principal triggers of internationalization decisions

	Frequency	Percent
Risk reduction	121	25
Capacity utilization	100	20
Client follower ship	56	11
Unsolicited sales order	54	11
Desire for greater sales	45	9
Government incentives	29	6
Foreign friend	28	6
Decline in domestic sales	26	5
Confidence in the product	14	3
Foreign encouragement	12	2
Other	9	2
Total	494	100

N= 494

Missing values = 0

TABLE 6.9

Frequency table of the principal sources of information for internationalization decisions

	Frequency	Percent
Personal foreign visit	251	51
Personal sources (friends etc.)	163	33
Conferences and seminars	38	8
Media sources	30	6
Electronic sources	12	2
Total	494	100

N = 494 Missing values = 0

Sources of information are being considered as surrogate triggers of internationalization. Contrary to expectations, personal sources such as friends, family members, business associates and other acquaintances were not the principal sources of information about foreign market opportunities, neither were they the key elements in precipitating a firm's entry into foreign markets. Personal experience, it seems, is more convincing than verbal or written reports. This result is consistent with the Davidson's (1983) observation that direct experience is more important in market selection decisions than other sources of information including market research reports.

51% of the firms surveyed entered foreign markets on the strength of information gathered through a personal foreign visit. The principal motivations for firms venturing into foreign markets were risk reduction and capacity utilization, which together accounted for 44% of the respondent firm's motivations for internationalization. Therefore, the hypothesis that personal networks are the single most important trigger of internationalization is not supported by the data.

Hypothesis 6:

Firms that internationalize through networks do so at higher levels of market entry than those that do not.

The specific questions used to test this hypothesis are:

Q5 – What percentage of your total sales turnover comes from exports/international business income?

Q7 – How many foreign markets does your company service at present?

Q28 – Your Company’s involvement in international business is through: exports to other African countries only – exports and foreign manufacture.

Q32 – If you have foreign inputs into your product, then please indicate how your foreign suppliers have helped you in developing your international business

TABLE 6.10

Foreign supplier help and percent of sales turnover cross-tabulation

	Percentage of sales turnover		
	Less than 40 %	More than 40 %	Total
Foreign supplier help			
No help	311	66	377
Some help	40	0	40
Total	351	66	417

Missing values = 77 Chi-square = 24.537 df = 4 Sig = 0.000

TABLE 6.11

Help from network partners and number of foreign markets cross-tabulation

	Number of foreign markets		
	1-7	8 and above	Total
Foreign supplier help			
No help	294	83	377
Some help	40	0	40
Total	334	83	417

N = 494 Missing values = 77 Chi-square = 31.525 df = 4 Sig. = 0.000

TABLE 6.12

Help from network partners and market entry level cross-tabulation

	Market entry level		
	Low	High	Total
Foreign supplier help			
No help	329	55	384
Some help	25	15	40
Total	354	70	424

N = 494 Missing values = 70 Chi-square = 29.465 df = 2 Sig. = 0.000

The null hypothesis is that there is no difference in the levels at which market entry occurs (loosely termed the degree of internationalization) between those firms that use networks and those that do not. The probability of obtaining a chi-square value of 29.465 given in table 6.12, purely by chance is virtually non-existent. Therefore, we can confidently reject the null hypothesis with a zero chance of incorrectly doing so and conclude that there is a difference in the degree of internationalization between those firms that use networks and that do not. The difference is that there are more firms without network partner help that are internationalizing at higher levels compared to those with help.

Therefore, our original hypothesis that firms that internationalize through networks do so at higher levels of market entry than those that do not is not true, at least not in the southern African experience. If a higher degree of internationalization is equated with better performance, then we can conclude that those firms without network partner help are performing better than those with help. Relationships derived from networks seem to play a minor role in the internationalization of companies in the region. When industry factors were introduced as a control variable, the results remained unchanged with the exception of the Medical/Health services industry which showed evidence of higher internationalization owing to network partner help (see appendix 1).

Hypothesis 7:

Triggers of internationalization consist of two sets of stimuli which feedback into each other.

The specific questions that were used to test this hypothesis are:

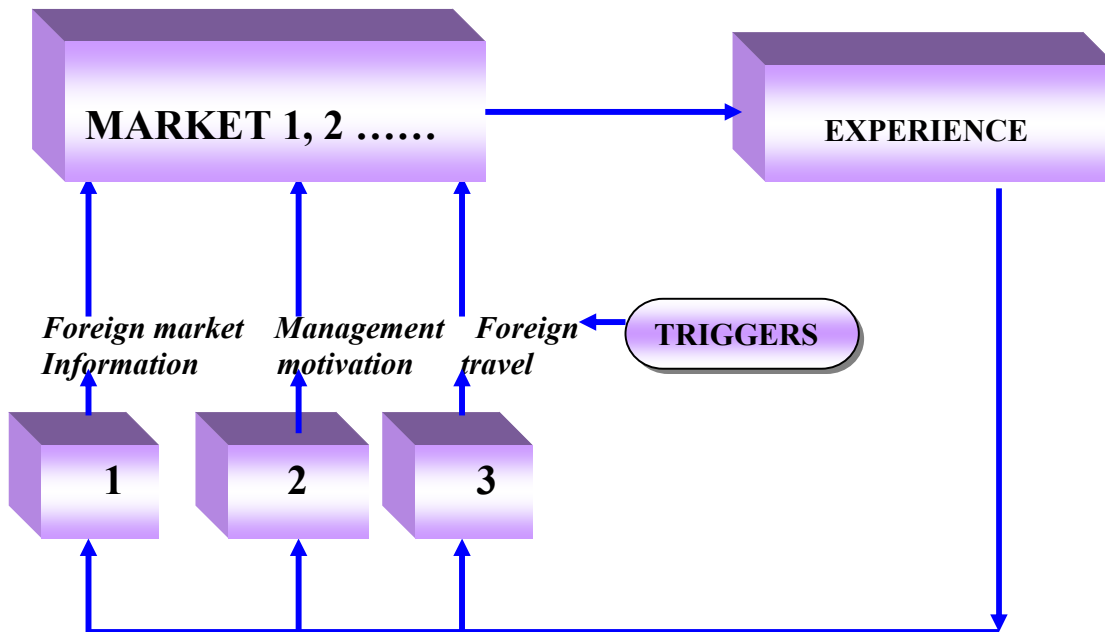
Q10 – How many countries had you travelled to before joining or founding this company?

Q21 – What actually triggered your company's decision to go international more than anything? Please rank in order of importance.

Q27 – What has been your most important source of information about foreign market opportunities?

FIGURE 6.1

The hypothetical relationship between internationalization triggers and market experience



Stimuli is received from the foreign market and from within the firm about foreign market opportunities to be exploited. The subsequent export action results in market experience that modifies the initial triggers for future export activity. The initial triggers are here represented by the three variables of foreign market information sources, management motivation and foreign travel even though in reality, there are a great deal more factors of initialization.

Hypothesis 7 was tested using discriminant analysis to determine the relative importance of each trigger in the internationalization process and a cross-tabulation to examine the impact market experience on future internationalization. The results are presented below.

TABLE 6.13

Discriminant Analysis

Group statistics

Group means

Pattern	Q10 Foreign experience	Q21 Primary motivators	Q27 Information sources
1	2.9724	5.0709	2.6654
2	2.4858	5.4340	3.3774
Total	2.7511	5.2361	2.9893

Group standard deviations

1	1.5333	4.2327	1.4122
2	0.9463	4.9010	1.5846
Total	1.3207	4.5475	1.5331

Canonical discriminant functions

Eigenvalue	% of variance	canonical correlation	wilks' lambda	chi-square	df	sig.
0.143	100	0.353	0.875	61.659	3	0.000

Standardized canonical discriminant function

structure matrix

Function 1		Function 1	
Foreign travel	-.713	Information sources	.630
Triggers	.482	Foreign travel	-.495
Information sources	.947	Triggers	.105

Canonical discriminant function coefficients

	Function 1
Foreign travel	-.548
Triggers	.106
Information sources	.634
(Constant)	.941

unstandardized coefficients

Interpretation

This discriminant function has a canonical correlation of .353. The Wilks' lambda of 0.875 translates into a chi-square of 61.659 with 3 degrees of freedom that is significant at the 0.01 level. From the standardized canonical discriminant function coefficients, we can conclude based on the magnitude of the loadings, that the most important final trigger of the internationalization process is Q27 – information sources, followed by Q21 – primary motivators, and finally, Q10 – foreign work experience.

To determine whether or not there was a difference in market experience between those firms that followed pattern one and pattern two of the intra-stage market establishment chain, a cross-tabulation was used and the results are presented in table 6.14 below.

TABLE 6.14

Market establishment pattern and benefit derived from market experience cross-tabulation

	Info. Sources	Experience not transferable	Type of distributor	Avoid mistakes	Other
Pattern One	103	29	42	21	59
Pattern Two	87	15	55	41	14
Total	190	44	97	62	73

N = 494 Missing values = 28 Chi-square = 290.688 df = 10 sig. = .000

The majority of firms using either pattern of intra-stage market establishment considered experience gained from served foreign markets to be most useful in providing knowledge about where to look for information in new markets of interest. Other uses of experience gained from served markets included: finding suitable distributors, avoiding the same mistakes made in the past internationalization efforts and helping the firm start on a generally better footing in new foreign markets. Therefore, our hypothesis that triggers to internationalization consists of two sets of stimuli which feedback into each other, is confirmed.

Hypothesis 8:

Once the decision to internationalize has been made by a firm, intervening barriers can only slow the process but not stop it.

The specific questions that were used to test this hypothesis are:

Q21 – What actually triggered your company's decision to go international more than anything? Please rank in order of importance.

Q26 – If your company did not start international business from the time it was established, then what more than anything explains your company's delayed entry into foreign markets? Please rank in order of importance.

TABLE 6.15

Frequency table of barriers to internationalization

	Frequency	Percent
Lack of finance	165	33
Lack of information	70	14
Domestic market focus	60	12
Fear of the unknown	26	5
Lack of managerial skills	25	5
Lack of profit imperative	15	3
Poor product quality	12	2
Other	15	3

N = 494 Missing values = 106

TABLE 6.16

Number of foreign markets and triggers/motives for internationalization cross-tabulation

Triggers	Number of foreign markets			
	1 – 3	4 – 7	8 and above	Total
Risk reduction	41	65	15	121
Capacity utilization	23	30	40	93
Decline in sales	26	0	0	26
Desire for greater sales	15	30	0	45
Confidence in product	0	0	14	14
Government incentives	15	14	0	29
Unsolicited sales order	41	13	0	54
Foreign friend	28	0	0	28
Foreign encouragement	12	0	0	12
Other	9	0	0	9
Total	240	164	83	487

N= 494 Missing values = 7 Chi-square = 298.372 df = 30 sig. = .000

The evidence presented in table 6.16, points to the fact that whatever the principal trigger that motivated a firm's entry into international business, the barriers identified in table 6.15, were ultimately powerless in stopping the process. The corporate will to successfully internationalize, far exceeds the power of barriers. Barriers are only successful to the extent that management allows them to be. Thus, hypothesis 8 is confirmed to be true.

Hypothesis 9:

Probability theory best explains the course of action that will be taken by a firm in its intra-stage and post-stage development.

The specific questions that were used to test this hypothesis are:

Q17 – The most senior management of our Company wish in future to change the way our company does international business, from being just an exporter to operating foreign subsidiaries. Strongly agree/disagree.

Q18 – Would you say that the start of your Company's international business was planned or it was by chance?

Q30 – Our experience in each foreign market has generally followed this pattern: pattern 1-5 given.

TABLE 6.17

Frequency table of planning orientation for internationalization

	Frequency	Percent
Planned	308	62
By chance	172	35

N = 494 Missing values = 14

TABLE 6.18

Planning orientation and future direction cross-tabulation

Entry format	Interest in higher internationalization mode choices		
	None	High	Total
Planned	129	108	237
By chance	103	69	172
Total	232	177	409

N = 494 Missing values = 14 Chi-square = 113.422 df = 4 sig. = .000 Neutral = 71

From the evidence provided in Table 6.17, and Table 6.18, it does not appear that firms that internationalize by chance have any advantage over those that do so deliberately. On the contrary, those who plan their internationalization are more likely to choose higher internationalization forms in future. Therefore while chance events seem to have a small role in the internationalization process, their effect is by far overshadowed by deliberate and reasoned management interventions. The present data does not support the hypothesis that probability theory best explains the course of action that will be taken by a firm in its intra-stage and post stage development.

Correlations

TABLE 6.19

Correlation between firm internationalization and management characteristics

	Value	Significance
Q9 – manager age	-.379	.000**
Q10 – foreign travel	-.058	.197
Q11 – foreign residence	-.137	.002**
Q12 – foreign work	-.191	.000**
Q14 – risk perception	.260	.571
Q15 – cost perception	-.052	.247
Q16 – perception of difficulty	-.103	.021*
Q20 – principal decision makers	.224	.000**
Q33 – management attitude to failure	-.096	.034*

** Significant at 0.01 * significant at 0.05

Interpretation

The null hypothesis is that there is no relationship between firm internationalization and management characteristics. However, from the results in table 6.18, we can reject the null hypothesis and conclude that there is a relationship between firm internationalization and management characteristics, albeit a weak relationship. There is a negative relationship in 7 of the 9 management variables suggesting non-linearity between firm internationalization and management characteristics. However, manager age, foreign residency, foreign work experience, perception of difficulty, who the principal decision makers were and management attitude to failure, were all significant. Therefore the general conclusion is that management characteristics do play a role in firm internationalization, although that role is best explained in light of other variables.

TABLE 6.20

Correlation between firm internationalization and firm characteristics

	Value	Significance
Q1 - Firm industry	-.093	.039*
Q2 – Firm size by number of employees	.092	.041*
Q4 – Firm size by sales turnover	.233	.000**
Q3 – Firm age	-.028	.529
Q6 – Age of main product	-.022	.631
Q19 – Entry format (planned vs unplanned)	-.377	.000**
Q31 – Percentage of foreign inputs	.052	.244
Q34 – Competitive advantage	-.271	.000**

** Significant at 0.01 * significant at 0.05

Interpretation

Firm size, both in terms of the number of employees and in terms of sales turnover, is positively and significantly related firm internationalization. However, firm age and the length of time that the main export product has existed in the firm's product range, are negatively and insignificantly related to firm internationalization.

TABLE 6.21

Correlations between firm characteristics and speed of internationalization

	Value	Significance
Q1 – firm industry	.013	.760
Q2 – firm size by number of employees	.096	.033*
Q4 – firm size by sales turnover	.231	.000**
Q3 – firm age	.526	.000**
Q6 – age of main export product	.200	.000**
Q31 – percentage of foreign inputs	.055	.219
Q34 – competitive advantage	.010	.820

** Significant at 0.01 * significant at 0.05

Interpretation

Table 6.21 above shows that there is a positive and significant relationship between the speed of internationalization and most of the variables relating to firm characteristics. Firm age is strongly correlated with the speed at which a firm internationalizes. Relatively young firms tend to internationalize at a faster rate than older firms.

TABLE 6.22

Correlations between management characteristics and the speed of internationalization

	Value	Significance
Q9 – manager age	.244	.000**
Q10 – foreign travel	-.127	.005**
Q11 – foreign residence	.213	.000**
Q12 – foreign work experience	.037	.408
Q14 – risk perception	.080	.074
Q15 – cost perception	.039	.391
Q16 – perception of difficulty	-.204	.000**
Q19 – planning orientation	.273	.000**
Q20 – principal decision makers	-.124	.006**
Q33 – management attitude to failure	.052	.247

** Significant at 0.01 * significant at 0.05

The general conclusion that we can arrive at is that there is a significant relationship between firm characteristics, management characteristics and firm internationalization, particularly as it relates to the speed with which the process takes place.

Factor Analysis

Factor analysis is useful in summarizing under a few headings, known as factors, groups of variables that respondents consider important. In a complex phenomenon such as the internationalization process, respondents may not be able to determine the importance of individual variables in the whole process and therefore presenting the variables in groups gives a better picture of the impact or contribution of each subgroup of variables in the entire process.

TABLE 6.23

Correlation matrix

	Q35	Q36	Q37	Q38	Q39	Q40	Q41	Q42	Q43	Q44	Q45	Q46
Q35 – cost influence	1.00											
Q36 – technology	.498	1.00										
Q37 – government	.207	.412	1.00									
Q38 – domestic mkt.	.665	.375	.305	1.00								
Q39 – industry	.217	.379	.371	.185	1.00							
Q40 – information	.187	.289	.391	.187	.312	1.00						
Q41 – mgt. attitude	.499	.563	.339	.487	.494	.288	1.00					
Q42 – culture	.198	.332	.117	.211	.329	.632	.473	1.00				
Q43 – resources	.438	.402	.150	.425	.324	.583	.602	.662	1.00			
Q44 – bus. strategy	.290	.491	.383	.125	.536	.510	.665	.507	.510	1.00		
Q45 – chance events	.179	-.008	.225	.038	.009	.516	.080	.189	.286	.262	1.00	
Q46 – partnerships	-.049	.032	.246	.007	.533	.503	.004	.303	.189	.193	.330	1.00

- High correlations are in bold.

TABLE 6.24

Rotated component matrix

	Component			
	1	2	3	4
Q35- cost influence	.183	.851		
Q36 – technology	.349	.540	.439	-.154
Q37 – government	-.113	.373	.695	.292
Q38 – domestic mkt.		.840		
Q39 –industry	.344		.381	
Q40 – information	.539		.252	.671
Q41 – mgt. Attitude	.602	.528	.343	-.157
Q42 – culture	.857			.216
Q43 – resources	.781	.367		.248
Q44 – bus. Strategy	.646	.166	.485	
Q45 – chance events	.102	.118		.857
Q46 – partnerships	.132	-.269	.544	.567

Extraction method: principal component analysis
 Rotation method: Varimax with Kaiser normalization
 High loadings are in bold

Interpretation

The four components chosen have been labeled **management attitude** (Q40-44), **cost** (Q35, Q36, Q38, Q4), **partnerships** (Q37, Q46), and **opportunity** (Q40, Q45, Q46). From table 6.25, below, the factor analysis reveals that 75 % of the total variance in the 12 variables (Q35-Q46), is explained by these four components which have been retained. Therefore, we can say with reasonable certainty that these four components were considered by the respondents to be the most important factors in their decision to internationalize. Table 6.26, reveals that communality values in respect of each of the variables exceeds 0.5, which is an indicator of how well the retained factors capture the content of the statements (Q35-46). Therefore, we can conclude that there is a good fit between the chosen factors and the data.

TABLE 6.25

Total Variance Explained

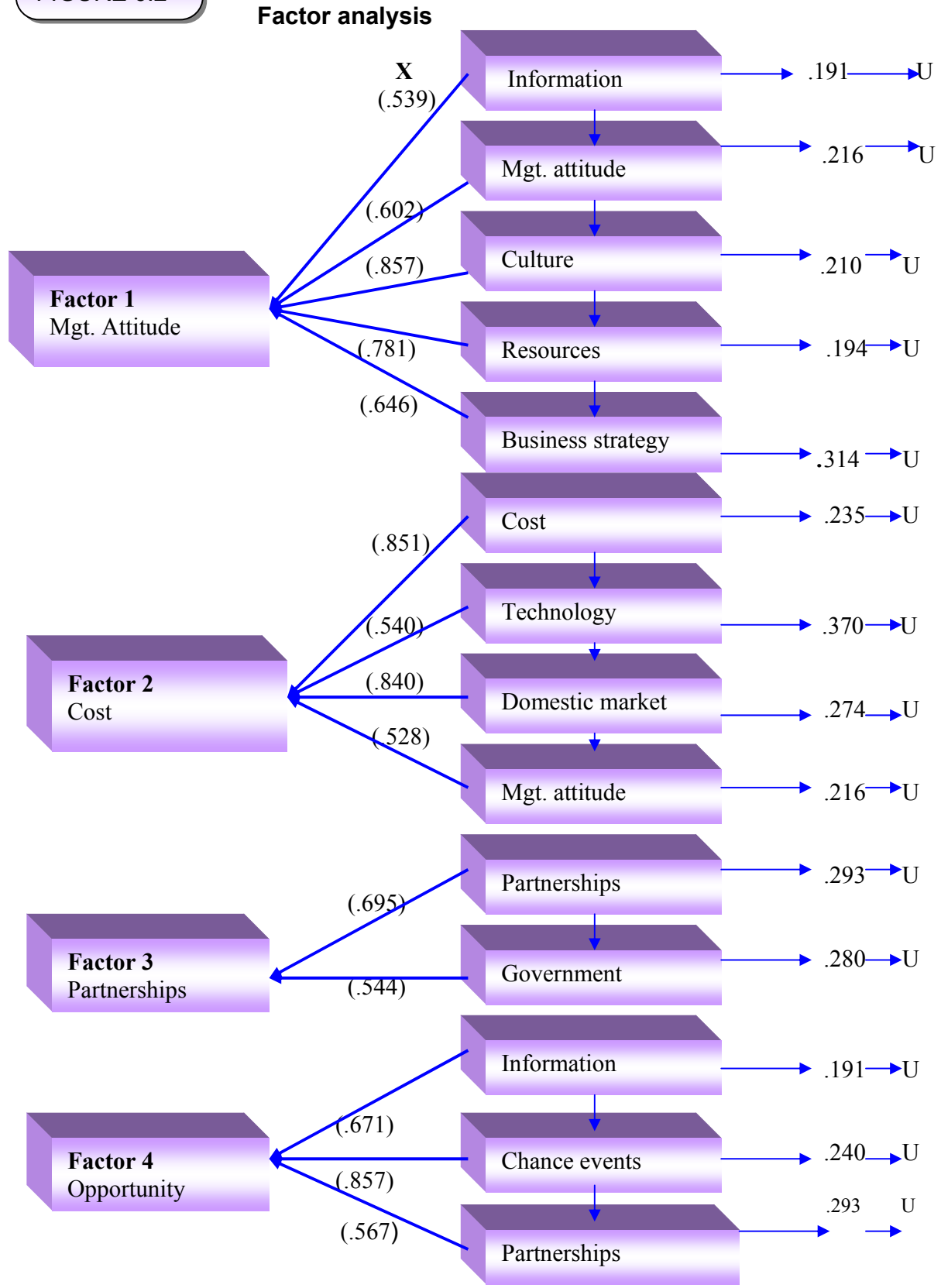
	Initial Eigen-Values			Extraction Sums of Squared Loadings	Rotation Sums of Squared Loadings		
component	Total	% of variance	cumulative %	Total	Total	% of variance	cumulative %
1	4.782	39.854	39.854	4.782	2.738	22.818	22.818
2	1.862	15.520	55.374	1.862	2.397	19.976	42.794
3	1.218	10.154	65.528	1.218	2.060	17.166	59.961
4	1.098	9.147	74.674	1.098	1.766	14.714	74.674
5	.841	7.007	81.681				
6	.610	5.086	86.767				
7	.489	4.074	90.840				
8	.289	2.405	93.245				
9	.263	2.195	95.440				
10	.218	1.819	97.259				
11	.172	1.432	98.691				
12	.157	1.309	100.000				

TABLE 6.26

Communality values

	Initial	Extraction
Cost influence	1.00	.765
Technology influence	1.00	.630
Government influence	1.00	.720
Domestic market influence	1.00	.726
Industry influence	1.00	.778
Information influence	1.00	.809
Management attitude	1.00	.784
Cultural influence	1.00	.790
Resource influence	1.00	.806
Business strategy influence	1.00	.686
Chance events influence	1.00	.760
Partnerships influence	1.00	.707

FIGURE 6.2



The figures in parenthesis are the factor loadings (X) extracted from Table 6.23, above, while U is the variance associated with each X variable (Child, 1990). It is calculated as follows: 1-communality value given in Table 6.25. Based on the eigenvalues calculated in Table 6.24, it is clear that the factor with the greatest influence in the internationalization process is management attitude (reflected in the organisation's culture, strategy, human and financial resources and management's attitude to international business), followed by cost factors, the influence of partnerships and finally the existence of opportunities for internationalization.

T – tests

T-tests were used to test a number of hypotheses relating to the internationalization behaviour observed in South African firms versus that observed in Zimbabwean firms.

Hypothesis 1a:

There is no difference in the degree of internationalization between South African firms and Zimbabwean firms.

TABLE 6.27

Group statistics

Degree of Internationalization	Country	N	Mean	Standard Deviation	Standard Error
	ZW	153	1.8235	1.0706	8.656E-02
SA	341	2.2845	1.3863	7.507E-02	

<i>Levine's test for equality of variances</i>							
	F	Sig.	T	df	2-tail sig.	Mean diff.	Sd. Error
Equal Variances	15.530	.000	-3.652	492	.000	-.4609	.1262
Unequal Variances			-.4023	372.47	.000	-.4609	.1146

The mean difference of $-.4609$ indicates that there is a difference in the scoring of the degree of internationalization between South African and Zimbabwean firms. However, that in itself does not provide sufficient grounds for accepting or rejecting the null hypothesis. There is a need to establish if this difference in scoring the degree of internationalization existed among all the respondents. The t-value of -3.652 in table 6.26, above has a significance of $.000$. In other words there is a 0% chance of obtaining this result purely by chance. Therefore, the difference is significant and the null hypothesis can be rejected with confidence. There is a difference in the internationalization of firms between the two countries. Table 6.28, reveals the nature of this difference. A greater proportion of South African firms tend to internationalize at the higher end of the internationalization process than Zimbabwean firms.

TABLE 6.28

The degree of internationalization between South African and Zimbabwean firms

Degree of Internationalization	South Africa		Zimbabwe	
	Frequency	Percent	Frequency	Percent
High	57	17	13	8
Low	284	83	140	92
Total	341	100	153	100

Hypothesis 2a:

There is no difference in the speed at which firms internationalize in South Africa and Zimbabwe.

TABLE 6.29

Group statistics

	Country	N	Mean	Standard Deviation	Standard Error
Speed of Internationalization	ZW	153	1.0980	.5100	4.132E-02
	SA	341	1.2815	.4504	2.439E-02

Levine's Test for equality of variances							
	F	Sig.	T	df	2-tail sig.	Mean Diff.	Sd. Error
Equal Variances	7.986	.005	-4.015	492	.000	-.1835	4.570E-02
Unequal Variances			-3.830	262.636	.000	-.1835	4.790E-02

The t-value of -4.015 with a significance of $.000$ indicates that we must reject the null hypothesis and conclude that there is a difference in the speed at which firms internationalize in South Africa and Zimbabwe. Table 6.30 below amplifies the difference.

TABLE 6.30

Speed of internationalization between South African and Zimbabwean firms

Speed of Internationalization	South Africa		Zimbabwe	
	Frequency	Percent	Frequency	Percent
Fast	245	72	112	73
Slow	96	28	28	18
Total	341	100	140	91

N = 494 Missing values = 13

The proportion of fast “internationalizers” was almost identical for both the South African and Zimbabwean sample, although the Zimbabwean sample had a marginally higher proportion. The main difference was in the proportion of slow “internationalizers”. The South African sample had a somewhat higher proportion of slow moving firms when it came to internationalization. This result could be explained by an examination of how firms in the two countries view export risk.

Hypothesis 3a:

There is no difference in export risk perception between South African and Zimbabwean firms.

TABLE 6.31

Group statistics

Export risk Perception	Country	N	Mean	Standard Deviation	Standard Error
	ZW	153	3.4379	1.9829	.1603
SA	341	4.0528	1.6654	9.019E-02	

<i>Levine's test for equality of variance</i>							
	F	Sig.	T	df	2-tail sig.	Mean Diff.	Sd. Error
Equal variances	12.381	.000	-3.571	492	.000	-.6149	.1722
Unequal variances			-3.343	252.152	.001	-.6149	.1839

There is a 0% chance of obtaining a t-value of -3.571 purely by chance. Therefore, we must reject the null hypothesis and conclude that there is a difference in export risk perception between firms of the two countries. The nature of these differences is revealed in Table 6.32, below. The South African sample has a significantly higher proportion of firms who perceive exporting to be a high-risk undertaking, compared to the Zimbabwean sample. This has obvious implications on the speed of internationalization.

TABLE 6.32

Risk perception and country cross-tabulation

	South Africa	Percent	Zimbabwe	Percent	Total
Risk Perception					
High	124	36	40	26	164
Low	105	31	58	38	163
Neutral	112	33	55	36	167
Total	341	100	153	100	494

N=494

Missing values = 0

Hypothesis 4a:

There is no difference in the pattern of internationalization between South African firms and Zimbabwean firms.

TABLE 6.33

Group statistics

	Country	N	Mean	Standard Deviation	Standard Error
Degree of Internationalization	ZW	153	2.3595	1.2598	.1018
	SA	341	2.1114	1.5375	8.326E-02

Levine's test for equality of variances							
	F	Sig.	T	df	2-tail sig.	Mean Diff.	Sd. Error
Equal variances	23.086	.000	1.749	492	0.81	.2480	.1418
Unequal variances			1.886	352.651	0.60	.2480	.1315

A t-value of 1.749 would occur 81% of the time purely by chance. Therefore, the differences in the two samples are not significant and consequently we must accept the hypothesis that there is no difference in the pattern of internationalization between South African and Zimbabwean firms.

Discriminant analysis

Discriminant analysis was used to offer a solution to the question: what accounts for the difference between early exporters and late exporters? Question 25 was used as the grouping variable. The 6 multiple choice response options were collapsed into two groups, that is: early exporters and late exporters. All the variables were simultaneously entered into the discriminant analysis using the stepwise method, with only questions 5, 7, 8, 13, 22 and 35-46, being excluded from the analysis because of their lack of suitability. One discriminant function was extracted and the results are presented in table 6.34 and table 6.35 below.

The relative size of the canonical loadings were used as indicators of the importance of each variable and therefore ranked the contribution of each variable in descending order. The first 5 most important factors differentiating early exporters from late exporters in descending order are: foreign work experience, planning orientation (whether foreign market entry was planned or it occurred by chance), the length of time that the international business method has been used, firm age and foreign residency.

TABLE 6.34

Discriminant analysis results of the difference between early and late exporters

Eigenvalue	% of Variance	Canonical correlation	Wilk's Lambda	Chi-square	df.	Sig.
2.186	100	.828	.314	537.700	28	.000

TABLE 6.35

Standardized and canonical coefficients

Variable	Standardized Coefficients	Canonical Loadings
Q1 – industry factors	.324	.244
Q2 – firm size (employees)	.209	-.444
Q3 – firm age	.204	1.264****
Q4 – firm size (turnover)	.185	-.785
Q6 – years with main product	.184	-.256
Q9 – manager age	.174	-.834
Q10 – foreign travel	-.142	-.274
Q11 – foreign residence	.132	1.230*****
Q12 – foreign work experience	.114	-2.994*
Q14 – risk perception	-.108	-.027
Q15 – cost perception	-.107	-.112
Q16 – perception of difficulty	-.106	-.602
Q17 – export preparation time	.103	-.501
Q18 – future direction	.090	-.183
Q19 – planning orientation	-.082	2.744**
Q20 – principal decision makers	.068	1.163
Q21 – triggers	.066	.059
Q23 – market entry sequence	.063	-1.135
Q24 – benefit of market experience	.063	.416
Q26 – market entry barriers	-.062	.111
Q27 – information sources	-.046	-.469
Q28 - degree of internationalization	.040	.689
Q29 – length of method usage	.032	-1.281***
Q30 – market establishment pattern	.031	.147
Q31 - % of foreign inputs	.029	.418
Q32 – foreign supplier help	.019	1.011
Q33 – attitude to mgt. Failures	.016	.072
Q34 – competitive advantage	.013	-.259
Constant		3.520

*Most important **second ***third **** fourth ***** fifth

To answer the question: what is it that discriminates between firms that have a high level of internationalization and those that have a low level of internationalization, a similar process was followed with Q28 being the grouping variable. All the variables were entered simultaneously except Q5, Q7, Q8, Q13,

Q22 and Q35-46 because of their unsuitability in the analysis. The results are presented in Table 6.36 below.

TABLE 6.36

Standardized and canonical coefficients

Variable	Standardized Coefficients	Canonical Loadings
Q1 – industry factors	2.371	.576
Q2 – firm size (employees)	-1.540	-1.413
Q3 – firm age	1.751	1.156
Q4 – firm size (turnover)	-3.461	-3.347***
Q6 – years with main product	.953	.597
Q9 – manager age	-2.181	-2.291
Q10 – foreign travel	.083	.063
Q11 – foreign residence	1.049	1.454
Q12 – foreign work experience	-1.363	-2.915****
Q14 – risk perception	.375	.214
Q15 – cost perception	-.144	-.102
Q16 – perception of difficulty	-.870	-.601
Q17 – export preparation time	-1.678	-1.072
Q18 – future direction	-.442	-.225
Q19 – planning orientation	3.687	7.072*
Q20 – principal decision makers	5.203	3.402**
Q21 – triggers	-.318	-.073
Q23 – market entry sequence	-3.060	-2.683*****
Q24 – benefit of market exp.	1.156	.727
Q26 – market entry barriers	-1.446	-1.132
Q27 – information sources	1.490	.564
Q28 - internationalization degree	-2.637	-1.743
Q29 – length of method usage	-2.190	-1.965
Q30 – market estab. Pattern	1.038	.712
Q31 - % of foreign inputs	2.305	2.066
Q32 – foreign suppliers help	-.335	-.459
Q33 – attitude to mgt. Failures	.665	.456
Q34 – competitive advantage	-.112	-.089
Constant		8.735

* Most important ** Second ***Third ****Fourth *****Fifth

TABLE 6.37

Discriminant analysis results of the difference between high and low internationalization

Eigenvalue	% of variance	Canonical correlation	Wilk's Lambda	Chi-square	df	Sig.
17.550	100	.973	.054	1393.053	28	.000

The 5 most important variables differentiating between firms with a high degree of internationalization and those with a low degree of internationalization, in descending order, are: entry format (i.e. whether planned or by chance), who the principal decision makers are, firm size in terms of turnover, foreign work experience and finally, the market entry sequence that was followed by a firm.

Table 38 below is an attempt to profile firms based on firm and managerial characteristics into what a typical export-only firm is like versus a typical exporter that also combines other methods like FDI (foreign direct investment) FDI here includes licensing and other arrangements beyond exporting only). Similarly it should be possible to identify prospective export-only and prospective exporter-FDI candidates. The results are based on a cross-tabulation of each variable presented with question 28 that divided firms into export-only and exporter-FDI groups. Classification is based on the highest scores on each item. The chi-square figures were all significant at the 0.01 level. On the question of whether or not there was difference in performance (percentage of foreign sales turnover) between export-only firms and the hybrids, the results show similar patterns of performance. There is no discernible difference.

TABLE 6.38

Export-only firm and exporter-FDI firm profiles

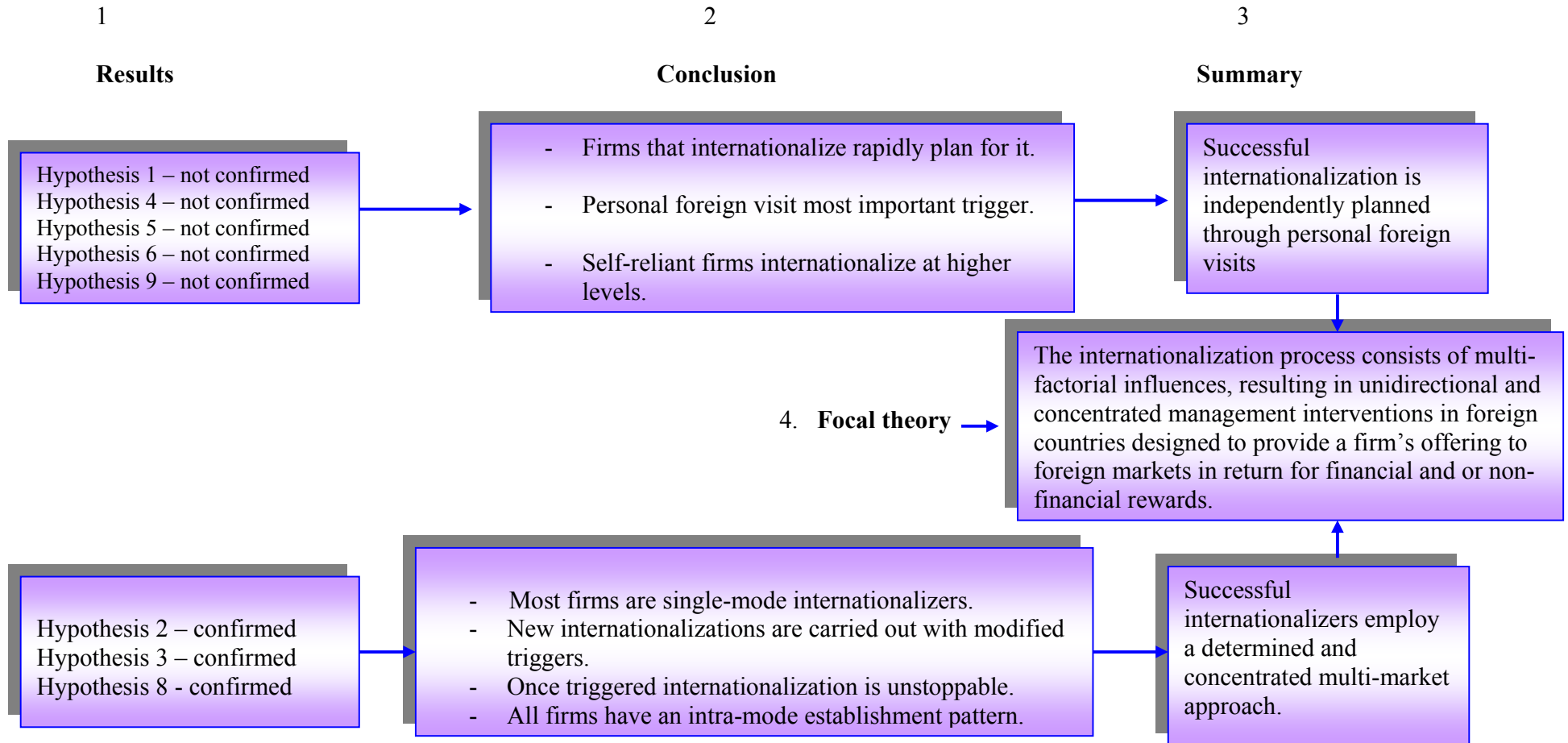
Variable	Export-only firm	Export and FDI firm
Q1 industry.	Manufacturing, construction.	Agribus, medical/health, manufacture
Q2 firm size-employees	from one onwards	at least 11
Q4 firm size-turnover	from under US\$ 100 000	at least US\$ 1.1 million and above
Q3 firm age	any age	5 years and above
Q6 age of export product	any age	any age
Q7 no. of served markets	1 - 7	4 - 7
Q9 manager age	31 - 50	31 - 40
Q10 foreign travel	0 - 3	4 - 7
Q11 foreign residence	none	some
Q12 foreign work exp.	none	some
Q14 risk perception	low	high
Q15 cost perception	low	low
Q16 perception of difficulty	low	low
Q17 preparation time	short	long
Q18 international future	exporting	FDI
Q19 planning orientation	formal planning/chance*	formal planning only
Q20 decision making unit	one person/ 2 people dominated	cross- functional team dominated
Q21 principal motivation	risk reduction	capacity utilisation
Q22 no. of markets added	1 - 3	1 - 3
Q23 market entry style	1 market at a time	1 market at a time
Q24 use of market exp.	Information	avoid mistakes
Q25 market entry speed	high	slower
Q26 market entry barriers	lack of finance	lack of finance
Q27 information source	personal foreign visit	personal foreign visit
Q29 length of method usage	since international business started	last 5 years
Q30 market establishment	pattern one and four	pattern one and three
Q31 % of foreign inputs	1 -20	1 - 20
Q32 supplier help	none	none
Q33 treatment of failure	coach and encourage	reprimand
Q34 competitive advantage	high product quality	product uniqueness

*Planned market entry was dominant (58%).

The summary of results given below provides the basic facts that were delivered in this chapter and acts as a quick reference point for the discussion that follows in chapter 7, where the intra-mode foreign market developmental patterns and the new internationalization model are presented.

FIGURE 6.3

Summary of results



CHAPTER SEVEN

THE INTERNATIONALIZATION MODEL

7.1 EXPORT INTERNATIONALIZATION

The U-I models of internationalization envisage the domestic market as the initial market of interest and the training ground for international business. The results of this study were generally consistent with this view. However, a point of departure from earlier studies, for example, Johanson and Wiedersheim-Paul (1975), is the speed with which the process of internationalization took effect. The discriminant analysis showed that the 5 most important determinants of the speed with which a firm internationalizes are, in descending order, foreign work experience, a carefully planned internationalization, the length of time that a firm had used a particular mode of market entry, firm age and foreign residency among key managers concerned with the internationalization decision.

50% of the firms surveyed internationalized their operations in the first 5 years of their existence. The figure rose to 72% for those internationalizing within the first 10 years of their existence. This short learning curve or swift acquisition of experiential knowledge can be explained in part by the fact that 77% of the managers in the survey had travelled to at least one foreign country before

joining or founding their present company. That exposure presumably, created an awareness of foreign opportunities and an interest in taking advantage of those opportunities. Reuber and Fischer (1997) presented a similar line of reasoning, as did Morgan and Katsikeas (1997), Manalova *et al.* (2002) and Westhead *et al.* (2001). They found that the international experience of the management team was a significant factor in the speed with which a firm internationalized its operations.

Additionally, Oviatt and McDougall (1994) point out that the low cost communication technology and ease of transportation means that access to any place on the globe is no longer the preserve of large and mature firms. The rapid internationalization may also be explained in part by the narrow product lines that small firms generally possess and therefore the intimate knowledge of those products and their marketing (Shrader *et al.*, 2000). The findings in this study also corroborate the contention by Kaynak and Kothari (1984), Karafakioglu (1986), Oviatt and McDougall (1994), that the longer a firm operates on the domestic market, the greater its inertia to internationalize owing to the constraints imposed on the firm by its own systems designed for the domestic market. However, it is important to note that international experience does not necessarily have a bearing on a firm's choice of entry mode (Sharma and Johanson, 1987). Rather it has more to do with the speed with which a firm internationalizes.

The finding of swift internationalization among regional firms is also consistent with the findings on the principal objectives of entrepreneurial firm internationalization in the Southern African region, which revealed the number one internationalization objective is risk reduction. Domestic economic, political and social pressures are a strong force in motivating international business activity within the region. Developing country economies are generally high-risk economies because of such factors as unpredictable public policy shifts, exchange rate instability, intense multinational/large firm competition in the home

markets, relatively low consumer purchasing power, low research and development and other limitations that make assured future survival and growth predicated on the volumes of international business achieved. Therefore we can expect domestic market conditions to have a strong influence on international entrepreneurial activity. Perceived high risk or economic uncertainty is likely to spur interest in international entrepreneurship while domestic prosperity is like to slow that interest. This might explain the slight differences in the speed with which firms internationalized in South Africa and Zimbabwe. The Zimbabwean sample had a marginally faster rate of international entrepreneurial activity compared to the South African sample where relatively prosperous domestic economic conditions prevail.

However, before wide generalizations can be made about this domestic economy risk-international entrepreneurship relationship, two conditions must be noted in respect of this observation. First, that there are other factors that have a moderating influence, for example, managerial and technical competence, opportunity, information, exchange rate policies and so on, otherwise it would reasonably be expected that all developing countries would have high international entrepreneurial activity far in excess of that exhibited by their developed market counterparts. This is not the case at the present time. Second, that the risk perceptions and therefore appetite for risk-laden endeavours were substantially different between the two samples. 36% of the firms in the South African sample viewed international activity as a high-risk undertaking compared to 26% in the Zimbabwean sample (see table 6.32 in chapter 6).

In sharp contrast to the assertion that domestic market conditions have a bearing on internationalization, Morgan and Katsikeas (1997) in their UK study of 449 exporting and non-exporting firms, found that domestic pressures had no bearing on domestic firm's intention to export. This was explained by the fact that the firms in their study may have perceived potential foreign markets as possessing similar characteristics to the domestic market, so that they did not

feel that their sales problems would be solved by going to different foreign markets. However, quite the opposite is the case in this region of the world.

The whole issue of relating domestic market conditions with entrepreneurial activity gives credence to the argument by Morrisson (2000) that entrepreneurship, whether it is international in nature or domestic, is culturally bound. According to him there is such a thing as entrepreneurial cultures and non-entrepreneurial cultures, which explains why certain nations are more successful than others at producing international entrepreneurial firms. Certain countries by virtue of their social and economic structures will produce individuals that are more: “ *attuned to the needs of a changing market economy and receptive to the demands, innovation, products, opportunities and technologies*” (Morrisson, 2000).

Conversely, there are cultures that devalue entrepreneurial activity by promoting attitudes that disapprove of underlying factors of entrepreneurship such as individualism and wealth creation. Therefore, the stronger the communal values the lower the likelihood of entrepreneurial activity. African countries generally fit the description of countries with strong communal values and therefore are likely to exhibit relatively low entrepreneurial activity. Differences among them in entrepreneurial activity, as is the case between Zimbabwe and South Africa can in part be explained by the differences in the strength of the communal values. However, as already noted, these views are moderated by other exogenous factors such as: economic conditions, managerial and technical competence, the existence of exploitable opportunities and so on.

As expected, the influence of firm size on the speed with which the internationalization process takes place was of much less importance than the resolve of management to internationalize the firm. This observation is consistent with that of Bilkey and Tesar (1977) who found that the quality and dynamism of management were much more important than firm size in explaining export

behaviour. Traditional internationalization theory of the U-I schools of thought argues that the internationalization process is a gradual/incremental process owing to a lack of resources (because of the firm's small size), a lack of information and a lack of experience, (Johanson and Vahlne, 1977; Wiedersheim-Paul *et al.*, 1978). However, the evidence available suggests that far from being slow internationalizers, modern small firms are fast internationalizers with effective mechanisms of mitigating against the disadvantages of size. Both Bonaccorsi (1992) and Calof (1994) extensively studied the effect of firm size on export propensity, and in both cases firm size was not a major determinant of whether or not a firm internationalized. This Southern African study also arrived at the same conclusion as the Italian Bonaccorsi (1992) and Canadian studies (Calof, 1994).

In fact, 11% of the firms in this study were born international firms (see appendix 4). This is a finding supported by Brush (1995), Lindmark *et al.* (1994), Oviatt and McDougall (1994) and Bell (1995), whose studies had proportions of born international firms ranging from 13 and 20%. However, the major difference with the studies cited above is that the born international firms in this study were not high technology or technical consultancy service firms but rather firms in the construction and manufacturing sectors. The high technology firms internationalized later but within the first 5 years. The reasons for this swift internationalization process identified among firms in this region and elsewhere are that:

- A firm may wish to take advantage of international marketing opportunities presented by a product or service that has a short life cycle, or one that is relatively cheap and or easy to market, for example software marketed electronically worldwide.
- A firm may be involved in project work initiated by one or more of its network partners
- The international experience or immigrant background of the entrepreneur/founder may mean that the international intention and the

initial groundwork may have been done long before coming to or founding the firm. And for this reason, the first foreign market of entry may often be the country of origin or the country of experience of the entrepreneur/founder.

- For some firms there is no domestic demand for their product and therefore the international market is the only market.
- The perception that the domestic economic conditions present a relatively high risk to the firm's future earnings.

Therefore the stages model of internationalization, which is based on the presumption that a firm needs to grow to a certain optimum level before it internationalizes, is only partially correct, in that it applies in some cases, but increasingly a high proportion of modern small firms do not exhibit the pattern of internationalization envisaged by the stages model. Given the growing research on the internationalization of small firms, a new theoretical framework is emerging which suggests that some combination of:

Management will + Opportunity + Support + Technology = Internationalization

The question of firm age and its relationship to the motives of internationalization presented some interesting evidence (See appendix Appendix 8). It would appear that the motives for engaging in international business vary depending on the age of the firm. However, the motivations are still internally based, that is, they are still mainly proactive, driven by some specific strategic management objective. This finding is in general agreement with Brush (1995) who also found motive switching to be a feature of small firm internationalization. Therefore motives for internationalization can be viewed hierarchically. That said the motives for internationalization also have a bearing on the mode of foreign market entry. Table 6.38 in chapter 6 presents some evidence of this.

Capacity utilization and firm growth are more important motives for firms engaged in foreign direct investment and licensing compared to exporters who are driven by a desire to minimize risk exposure. Bridgewater and Egan (2002) draw similar conclusions in respect of a Ukrainian study of multinational corporate entry behaviour by Bridgewater *et al.* (1995). They found that depending on whether a firm was market seeking, resource seeking, technology seeking, external contract seeking or client following, its market entry mode would be different. Indeed the firms flexibility in mode choice was often limited depending on the motives for internationalization. However, as to whether mode entry had a bearing on performance or not, this study found nothing to separate the two groups on the basis of performance. The surrogate measure used for performance measurement was the percentage of foreign sales to total sales, this notwithstanding Sullivan's (1994) caution on the use of this measure on the basis of its speculative nature. In this case, it was nevertheless the only way that performance could be measured in some way however imperfect.

A further deviation from the traditional view of internationalization lies in the fact that 86% of the firms surveyed (see appendix 10), exported their products from their home base and 47% of those firms indicated that they had no intention of changing from that form of international involvement to another higher form of involvement. At the same time, 39% of the respondent firms broadly confirmed their intention to develop to higher forms of internationalization, but only 6% of that group felt very strongly about the need to change the form of their internationalization. At first glance the results would seem to be consistent with the traditional Uppsala model of internationalization that suggests that internationalization starts with exporting before progressing to other forms of foreign market entry. It could plausibly be argued that the reason for the preference for exporting at this point in the lives of regional firms is that the firms are still in the early phases of their organizational life cycles and will given time, naturally tend to grow step-wise from one stage of internationalization to the next.

However, the major deviation lies in the fact that most of the firms are simply not moving beyond that first stage of exporting neither do they have a desire to do so. A cross-tabulation of firm age and the mode of internationalization in appendix 3 and 4, reveals that of the 234 firms that started business 21 or more years ago, only 24% have established themselves in foreign markets through methods other than exporting from the home base. Furthermore, 58% of these firms have been in business for varying periods of time ranging between 10 and 20 years, and have been exporting for several years, some had as much as 20 years export experience or more. Given the number of years in business and the number years in export experience, lack international experience certainly does not appear to be the reason for this pronounced pattern of single stage internationalization. There is a clear indication that many if not most of those firms that wished to internationalize via different foreign market entry modes have already done so. It would reasonably be expected that the proportion of firms that internationalize via the export-only option would significantly decline with age while at the same time those combining other modes would correspondingly increase substantially beyond 21 years of age, this is not the case (see appendix 3). 77% of firms that are 21 years old and above still use the export-only option compared to 23% that have combined exporting with different modes of foreign market entry. Therefore, the evidence available is that exporting is the preferred foreign market entry mode regardless of firm age.

The foreign direct investment school of thought would argue that the reason a firm chooses exporting over foreign direct investment is because it has a complex production process without the size or resources required to transfer this know-how to other countries. Exporting then, allows them to protect their intangible assets while at the same time minimizing the cost of international business (Galan *et al.*, 1999). However, this study found no evidence to suggest that the firms that exported were constrained in their efforts to internationalize via foreign direct investment. Exporting was evidently, a deliberate strategic choice.

This finding is in general agreement with the observation made by Petersen and Pedersen (1997), Chetty (1999) and Jones (1999) that some firms are mature single stage internationalizers who export to several markets and have substantial international experience, but yet they have no intention of engaging in foreign direct investment because remaining an exporter is less risky and profitable enough for them or the initial entry mode may be or perceived to be costly to change (Shrader *et al.*, 2001). Fillis (2001) made a similar observation that many firms do not progress beyond a certain level in their internationalization, thereby making many of the models of foreign direct investment and other higher forms internationalization, irrelevant to the small firm. However, this view must be qualified by the fact that Southern African governments have in the past limited the choice of internationalization alternatives available to firms through stringent exchange control regulations, some of which persist to the present day.

Traditionally the *modus operandi* favoured by regional governments has been exports from the home base (Viviers *et al.*, 1996). Therefore, it is possible that many firms have since developed inertia in experimenting with other forms of internationalization since the relaxation of the exchange control regulations, which have become somewhat more tolerant of foreign direct investment. Thus, the degree of internationalization need not be measured in terms of the stage at which the firm is in its development in the Johanson and Weidersheim-Paul (1975) sense, but rather in terms of the percentage of foreign sales in relation to total sales, and geographic dispersion without the foreign production element as originally suggested by Sullivan (1994), since the export-only form of internationalization can and does exist as the only complete and permanent form of internationalization for many small firms.

Critics may argue that small firms do not remain small throughout the entire course of their lives and therefore as the firm grows, other forms of internationalization will be added as the firm moves to a higher stage of

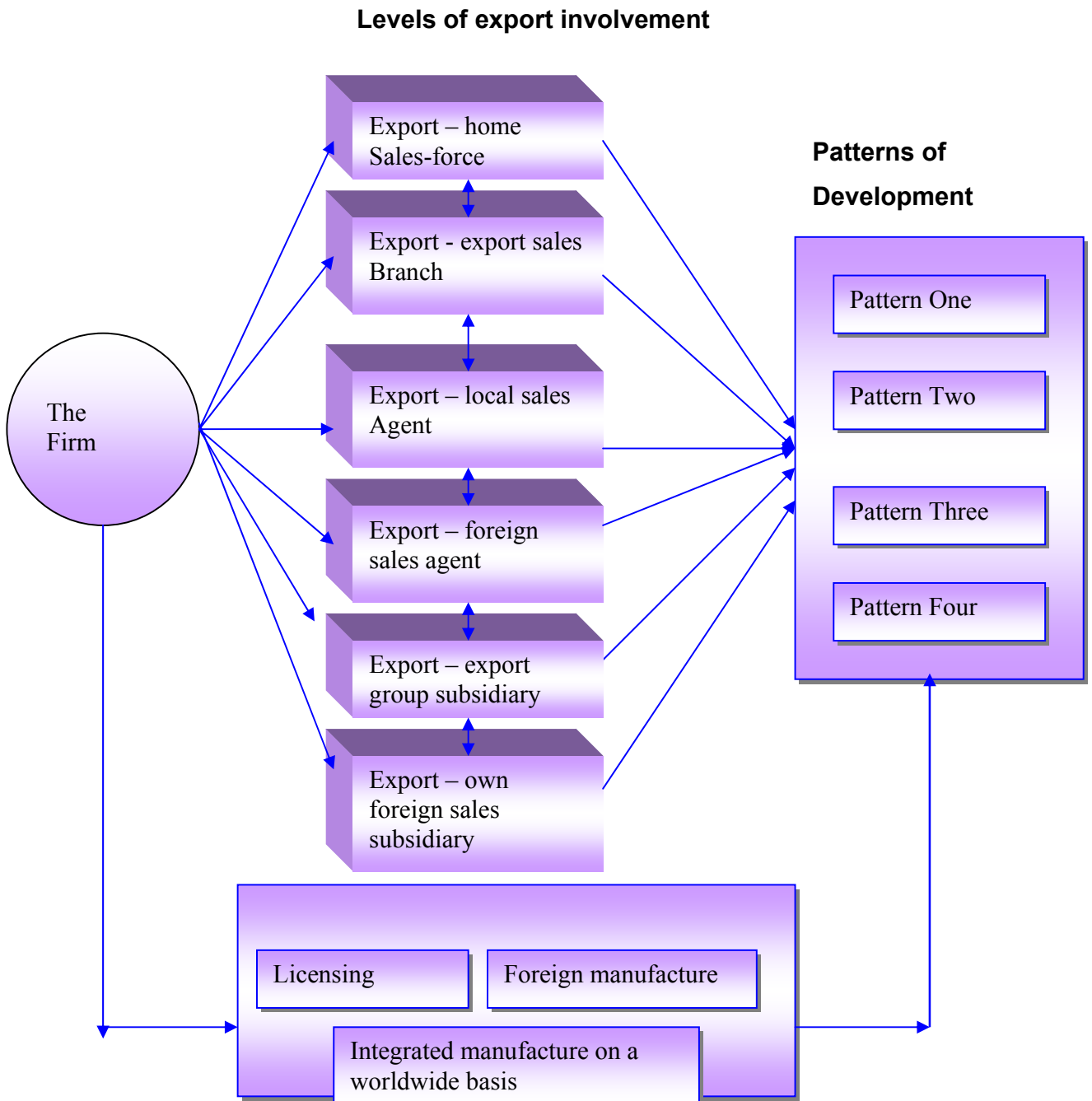
development. Apart from the Johanson and Weidersheim-Paul (1975) study there is little by way of corroborative evidence over a long period of time plus or minus 100 years to suggest that the small firm will grow to a level where the export-only option will of necessity be supplanted or at least be juxtaposed with other higher forms of internationalization. In fact there is ample evidence to suggest that not all small firms seek to grow beyond a desired level (Messeghem, 2003).

Just as some firms remain domesticated throughout the entire course of their lives, even though they may have decades of business experience and technically the ability to internationalize, so too many small firms might well remain small firms throughout the entire course of their existence and use a single entry mode choice, in this case exporting. After all, exporting itself has different levels of involvement. These are:

- Export through home-based sales-force.
- Export through a sales branch.
- Export through a local sales agent.
- Export through a foreign sales agent
- Export through an export group subsidiary.
- Export by means of the firm's own sales subsidiary in the foreign country (Valla, 1986).

FIGURE 7.1

The Theoretical Model of Export stages and intra-stage Development



Explaining the model

A small exporter firm may move along an intra-mode establishment chain in the sense of moving along the different levels of engagement/involvement within a particular mode over time. This process of moving along the different levels of engagement can be short or long depending on the organisation's learning capability, financial ability, ambitions, and its environment. The second process at work in this model is the intra-mode market development pattern. Once a firm has selected a level of export engagement that it will use in a foreign market, it will go on to apply that particular export procedure and follow a particular developmental pattern in the foreign market. The firm can follow one of four patterns of foreign market development. These four developmental patterns given in figure 7.1 above were identified in the preceding chapter and are explained in considerable detail below.

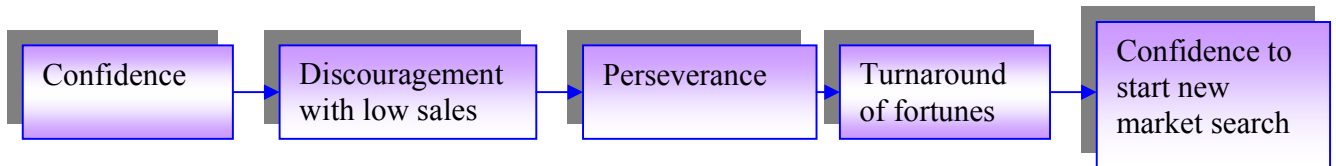
The foreign market experience that comes from following a particular development pattern may result in a firm wishing to move up or down the different levels of exporting. For example, assuming that the firm entered the market through exporting using the home sales-force (that is, level one in the intra-mode levels of involvement) it may find that it performs so well in that market that it may decide to move up the scale and now export via a foreign sales agent (that is, level 4 in the intra-mode levels of involvement) or it can perform below expectations and scale down the level of involvement if say it entered the market through an export group subsidiary (that is, level 5) or alternatively it may move out of the export mode altogether. As the firm moves between the different levels of intra-mode involvement, assuming it chooses to do so, there may be adjustments to its market developmental pattern. A new mode may result in the retention of the original market development pattern or it may result in a different one of the four patterns being experienced or a hybrid of the original and another pattern. Therefore hypothetically, it is conceivable that more than one foreign market developmental pattern may be experienced by a firm in a given foreign market.

In this export-only option a firm can connect directly to any export stage or progress sequentially from one level to the next or return to an earlier mode or it can also combine two or more export “mode packages” as Petersen and Welch (2002) call them, in the various markets in which it has a presence. Once the firm has selected an appropriate export method it will go through one of four developmental patterns once in the chosen export market. The same process occurs for other mode choices (foreign manufacture, licensing and integrated worldwide manufacture) as that described for the export-only mode. Even for licensing, foreign production and integrated worldwide production there are different levels of involvement through which a firm can progress once in that mode.

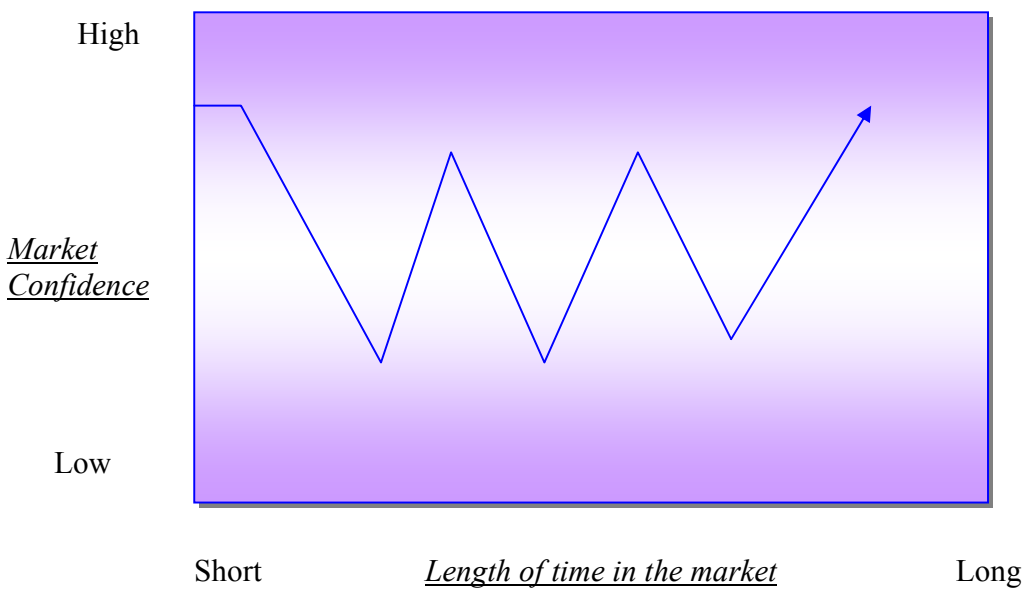
7.1.1 INTRA-MODE MARKET DEVELOPMENT PATTERNS

Apart from single mode or single stage internationalization appearing to be the more dominant form of internationalization for small firms in this region, there also seems to be a preferred intra-mode development pattern for most firms. 45% of the firms established themselves in foreign markets via the process that may be termed Perseverance or Pattern one. This process is given below in figure 7.2.

FIGURE 7.2 Pattern one of market development



Graphically the process may be represented thus:

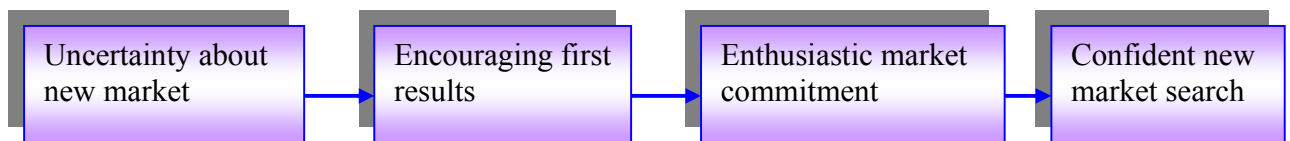


The majority (60%) of firms in this group (perseverers) internationalize sequentially, that is, they enter one new foreign market at a time, while 30% enter two markets at the same time and those entering more than two markets at a time constitute 11%. It appears that previous market confidence drives new market confidence. Therefore, success in the initial market is critical to additional market expansion. The dominant characteristics exhibited by this group in their approach to internationalization are: caution and resolute goal orientation.

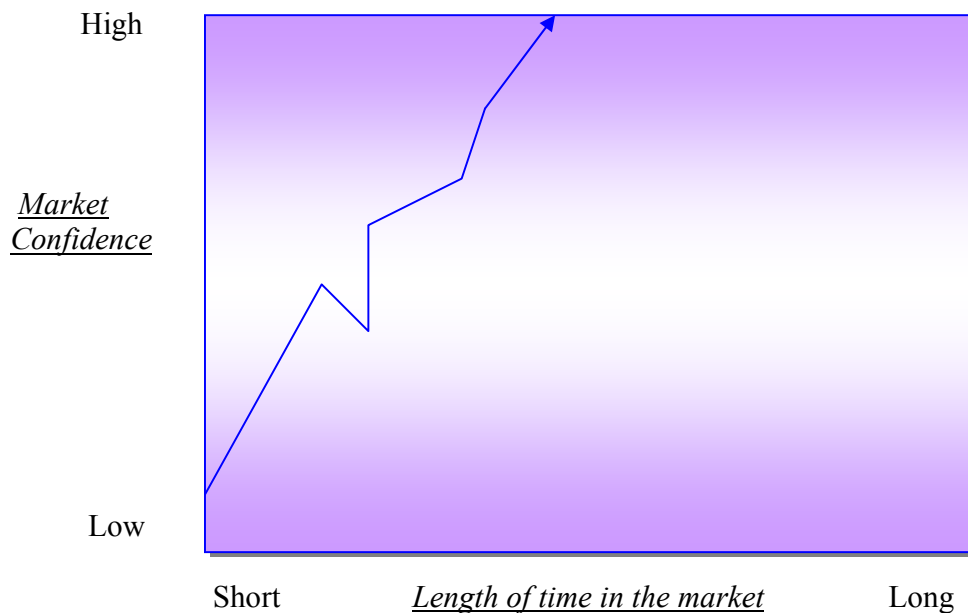
The second most popular internationalization pattern accounting for 27% of the respondents, established themselves in foreign markets through a process that may be termed golden adventurism or pattern two, which is as follows:

FIGURE 7.3

Pattern two of market development



Graphically the process may be represented thus:



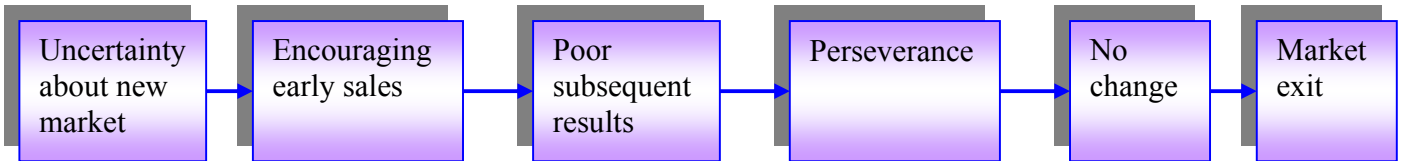
This is a case of instantaneous success sometimes even beyond the expectations of management. The firm strikes gold at its first attempt at international business and never looks back. Consequently, 58% of the firms in

this group enter two or more markets simultaneously, in contrast to the first group, the perseverers, who more often than not, approach international markets sequentially. The dominant characteristics of this group are: risk taking and fiery optimism about international business. This behaviour of rapid and simultaneous multiple market commitments is at variance with the Johanson and Vahlne (1977) doctrine of market knowledge and market commitment. They argued that the extent to which a firm commits itself to a foreign market depends on the experiential knowledge acquired by management in that market and also on the size of the physical resources committed to that market. However, in this case where firms are exporting to multiple markets from their home base, market commitment is measured in terms of the volumes exported to a particular country and the share of management mind that goes to that market. In this single stage internationalization scenario, internationalization is not incremental or step wise.

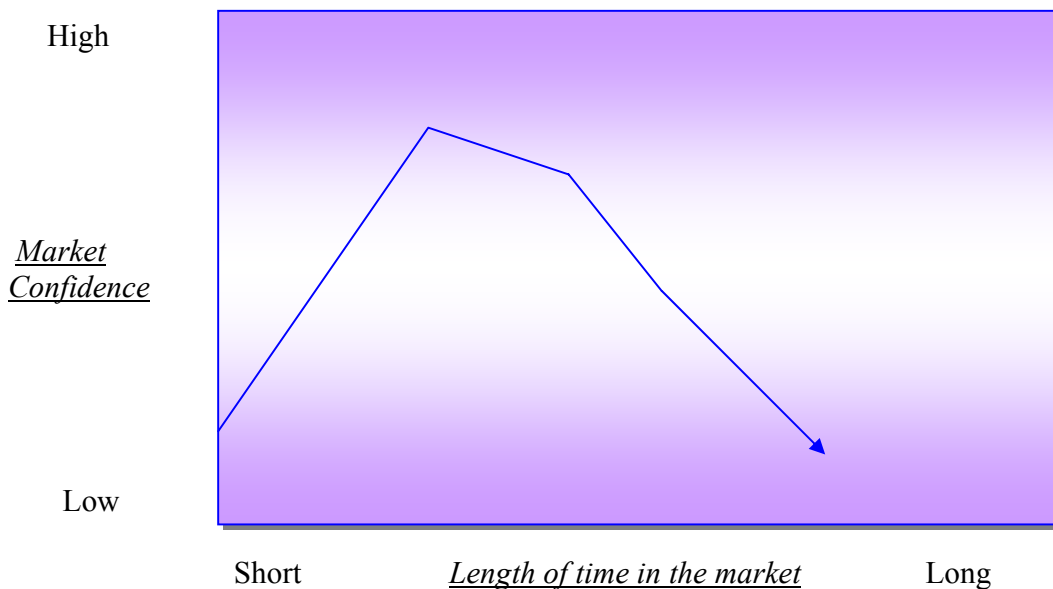
The third pattern consists of the nomads, with 13% of the respondents belonging to this group. 78% of the firms in this group enter one market at a time, while 22% enter two markets simultaneously. This is the type of firm that pursues a market concentration strategy and often lacks depth in terms of managerial capabilities and financial strength (Leonidou, 2000). Firms in this group have had no enduring success in their international business activities and tend to move from one market to next. They stay long enough in one market for their fortunes to wane in that market before they move on. Unlike the first two groups, their movement to new markets is failure-driven. The dominant characteristic of this group is opportunism. They internationalize through a pattern that may be termed nomadism, which is represented below in figure 7.4.

FIGURE 7.4

Pattern three of market development



Graphically the process may be represented thus:

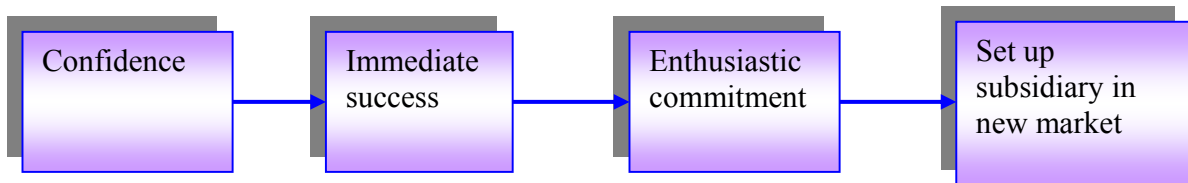


The fourth and final group the traditionalists, constitute 6% of the respondents. This group more or less exhibits the classical internationalization behaviour in the tradition of Johanson and Weidersheim-Paul (1975), Johanson and Vahlne, (1977) and Bilkey and Tesar (1977). All the firms in this group approach foreign markets sequentially, preferring to build a strong market presence in each served market before moving on to the next market. This is in contrast to the other groups who have a mixture of firms who approach foreign markets sequentially

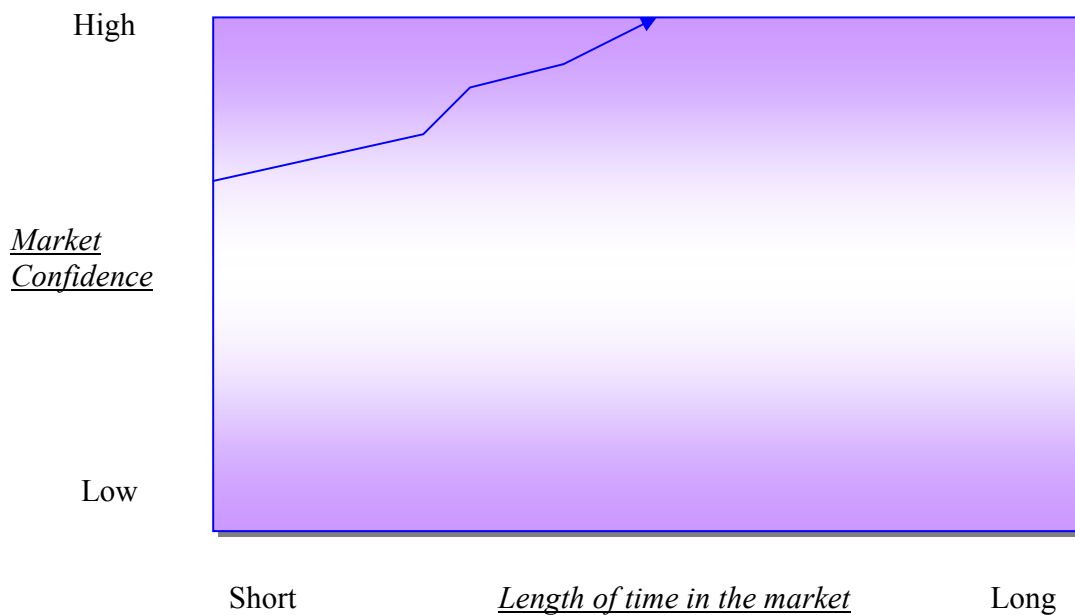
and some simultaneously. The dominant characteristics of this group are full market exploitation and a low risk appetite. They internationalize through a pattern that may be termed conventionalism, which is given below as follows:

FIGURE 7.5

Patten four of market development



Graphically the process may be represented thus:



7.1.2 RESULTS ON INTERNATIONALIZATION PROCESS ELEMENTS

On the question of mechanisms initiating internationalization, this study found that most managers were motivated by a desire to minimize risk as the principal reason for internationalization (Coviello and Martin, 1999; Shrader *et al.*, 2000). This is interesting given that a significant proportion of firms in both Zimbabwe and South Africa viewed exporting as a risky undertaking as indicated in figure 6.32 in chapter 6. However, it would appear that this seeming contradiction is explained by the fact that while a sizable number of respondent firms viewed exporting as a high-risk undertaking, they all recognized the fact that it was even riskier to remain focused on the domestic market only. Risk minimization was possible even though international expansion was rapid because accumulated market knowledge was transferable between markets (Clark *et al.*, 1997; Hedlund and Kverneland, 1985). The second motive was the desire for capacity utilization, then client followership and finally receiving unsolicited sales orders (see appendix 6).

This is in contrast to Bilkey and Tesar (1977) who found that the receipt of an unsolicited order was the principal motivator of internationalization in 60% of the firms in their study, and Brooks and Rosson (1982) who made similar conclusions about the preeminence of unsolicited sales orders in stimulating exports. The primary motive for internationalization found in this study is more proactive in that it emanates from the very philosophy and mission of the firms concerned, a finding also supported by Ogbuehi and Longfellow (1994), and this is in contrast with the reactive approach identified by Bilkey and Tesar (1977). It is also interesting to note that the motivators identified were necessary but insufficient requirements for the process to take off. There is an additional requirement for enablers to be present. These are highlighted below and presented in figure 7.6.

However the managers in this study depended on personal experience derived from personal foreign visits, as the major source of information on which to make internationalization decisions. Personal networks such as friends, family members, and foreign business contacts were of secondary importance, and it would appear that personal networks form part of the broad stimuli that lead managers to further investigation in the form of personal foreign visits. This finding is somewhat at variance with the Italian industrial districts example of Bonarccorsi (1992) where small firms relied on collective experience to internationalize, without necessity of each individual firm undertaking an objective information gathering exercise in foreign markets. This leads to the conclusion that the information gathering exercise and indeed the weight placed on different types of information will be different depending on whether internationalization is self-initiated or network partner-initiated.

Firms in this region are, by contrast to firms elsewhere, generally individualistic in nature and have no established history of collective internationalization. Consequently, 78% of the firms reported not having any network relationship with their foreign suppliers, and only 8% had some form of network relationship however elementary that may have been. This evidence is in general discord with Johanson and Mattsson (1988) and Coviello and Munro (1995) who see networks as an essential medium through which small firms can rapidly internationalize much less painfully than if they approach foreign markets unassisted. The region's firms exhibit a preponderance of unilateral and rational economic choice behaviour in their approach to internationalization, very much in keeping with the U-I internationalization models. It is not surprising then, that careful planning for internationalization is central to the region's firms. This behaviour is consistent with the risk minimization and proactive posture of the majority of exporters. However, the planning horizon is relatively short for most firms as indicated in table 6.2 of chapter 6.

In order to determine, in a more holistic fashion, what really drives the process of internationalization among the region's small firms, we conducted factor analysis. The results showed that those variables that collectively had to do with management attitude were the prime drivers of internationalization (See figure 6.2 in chapter 6). This finding is consistent with the findings of Simpson and Kujawa (1974) who found that the decision to internationalize was driven primarily by management's perception of and therefore attitude toward export stimuli, Weidersheim-Paul *et al.* (1978) who found that management's value profile in relation to foreign business determined their interest in international business, Westhead *et al.* (2001) who found that management factors were the key differentiators between exporters and non-exporters and Ibeh and young (2001) who found that high export-entrepreneurial firms were driven by top managers who are focused on the opportunities of exporting rather than on the risks of exporting. Second in importance in determining whether or not a firm internationalized were those variables that collectively had to do with the perceived cost of internationalization, followed by those variables that had to do with partnerships and finally those that had to do with opportunity.

An interesting relationship was observed between the manager age variable and the speed with which the firm internationalized (see appendix 9). The results show that managers in the 31-40 year age group were more likely to internationalize their firms faster than any other age group. The willingness to internationalize fast remained high until the age of 50 but from then on it drops appreciably, however it does not stop altogether. The results support a general preference for swift internationalization. Obben and Magagula (2003) also arrived at similar conclusions in their Swaziland study of firm and managerial determinants of export propensity among small and medium-sized firms. They found that export propensity rose with age up to a certain level after which export propensity drops considerably with age and conclude that export assistance programs should target those much younger than 65 years old. However, for practical purposes the cut-off age of 50 years old is more useful.

By contrast, Westhead *et al.* (2001) in their study of exporting and non-exporting United Kingdom small firms found that businesses with older principal founders were more likely to become exporters. However, the specific age bands that were used in this study were not given to facilitate a more accurate comparison. Nevertheless we can conclude that the age factor particularly as it relates to principal founder/managers that are involved in the internationalization decision has some bearing on how quickly the process will unfold.

The role of barriers in the internationalization process was examined and it was found that barriers play a comparatively small role in inhibiting the process for those organizations that have made the decision to internationalize. The principal barriers were reported to be the lack of finance, the lack of information and the firm's domestic market focus (Cheong and Chong, 1988; Korth, 1991; Pavord and Bogart, 1975; Bilkey and Tesar, 1977 and Oviatt and McDougall, 1994). This result is supported by the findings of Dichtl *et al.* (1990) who found that export barriers tend to be perceived as insurmountable by those firms that do not export as opposed to those that do.

By contrast, Leonidou (2000) in his study of Cyprus-based exporters found that the principal barriers to exporting were: the existence of keen competition abroad, the inability to offer satisfactory prices, bad/deteriorating economic conditions abroad, lack of government incentives/assistance and limited information on foreign markets. Similarly, Fillis (2002) in his UK and Ireland study of barriers to internationalization in small craft firms, found that managerial and organizational barriers such as: the lack of sufficient production capacity, the inability to export owing to the small firm's size, the lack of time to research export markets, the lack of marketing knowledge, the lack of financial resources, sufficient business in the domestic and the lack of export enquiries were the most powerful forces inhibiting internationalization. Therefore it appears that both perceptual and practical barriers to internationalization differ depending on the

country/place and time in the firm's life at which the internationalization decision is considered. However, like Leonidou (2000) who found that export experience and export aggressiveness had the greatest power in overcoming perceived export barriers, this study also found that the barriers were ultimately less powerful than the management will and experience to overcome the obstacles noted.

The process of internationalization therefore, is a unidirectional process with a few exceptions to this rule (Merrilees and Tiessen, 1999). Indeed there may be a few cases of firms withdrawing completely from all foreign activities. However, more generally, even where international activities have not produced positive benefits, the firm continues stubbornly or makes strategic withdrawals, regroup and try again even if it is not in the same foreign market. Faced with a gamblers dilemma of continuing to bet on a change in fortunes or to cut one's losses and withdraw, many managers focus on what they have already lost rather than what they could lose. Therefore reference to what has already been lost acts as the basis for continued involvement in foreign markets (Aharoni, 1966). The option to surrender or admit to failure is politically unsafe, career threatening and has many other negative personal and organizational effects, that make it an absolute last resort for most managers.

57% of pattern one firms (perseverers) and 49% across all patterns had Africa as their primary and exclusive market of focus at least initially. The idea that exporting firms generally start their internationalization in psychically close markets has been supported by a number of studies (Vernon, 1966; Johanson and vahlne, 1977; Weidersheim-Paul *et. al.*, 1978; Erramilli, 1991; O'Grady and Lane, 1996; and Ibeh, 2001). However, it has been discredited in an equally large number of studies (Sharma and Johanson, 1987; Benito and Gripsrud, 1992; Clark and Pugh, 2001).

However in the present case, geographic closeness does not equal psychic closeness (Viviers *et al.*, 1996). The psychic distance concept is a rather simplistic but intuitively appealing explanation for internationalization behaviour that is evidently premised on a number of factors that do not include any psychic affinity on the part of the decision maker(s) to nearby foreign markets. The preference for closer markets is due to other more practical forces at play such as the premium placed on “*swift and internationally coordinated action*” Sanders and Carpenter (1998), knowledge of local companies who have a presence in those markets and contacts in those markets Coviello and Martin (1999), ease of access owing to regional trade agreements and better market information Chetty (1999), perceived demand for the firm’s product O’Farrell *et al.* (1998) and Clark *et al.* (2001), the nature of the product and management perceptions of the firm’s own competitive strength *vis-à-vis* competitors in nearby markets Benito and Gripsrud (1992) and O’Farrell *et al.* (1998), the desire for risk reduction Johnsen and Johnsen (1999), the desire to minimize economic and managerial costs Clark *et al.* (2001) and Fillis (2002), and testing product acceptability in foreign markets/foreign market experimentation (Ibeh and Young, 2001).

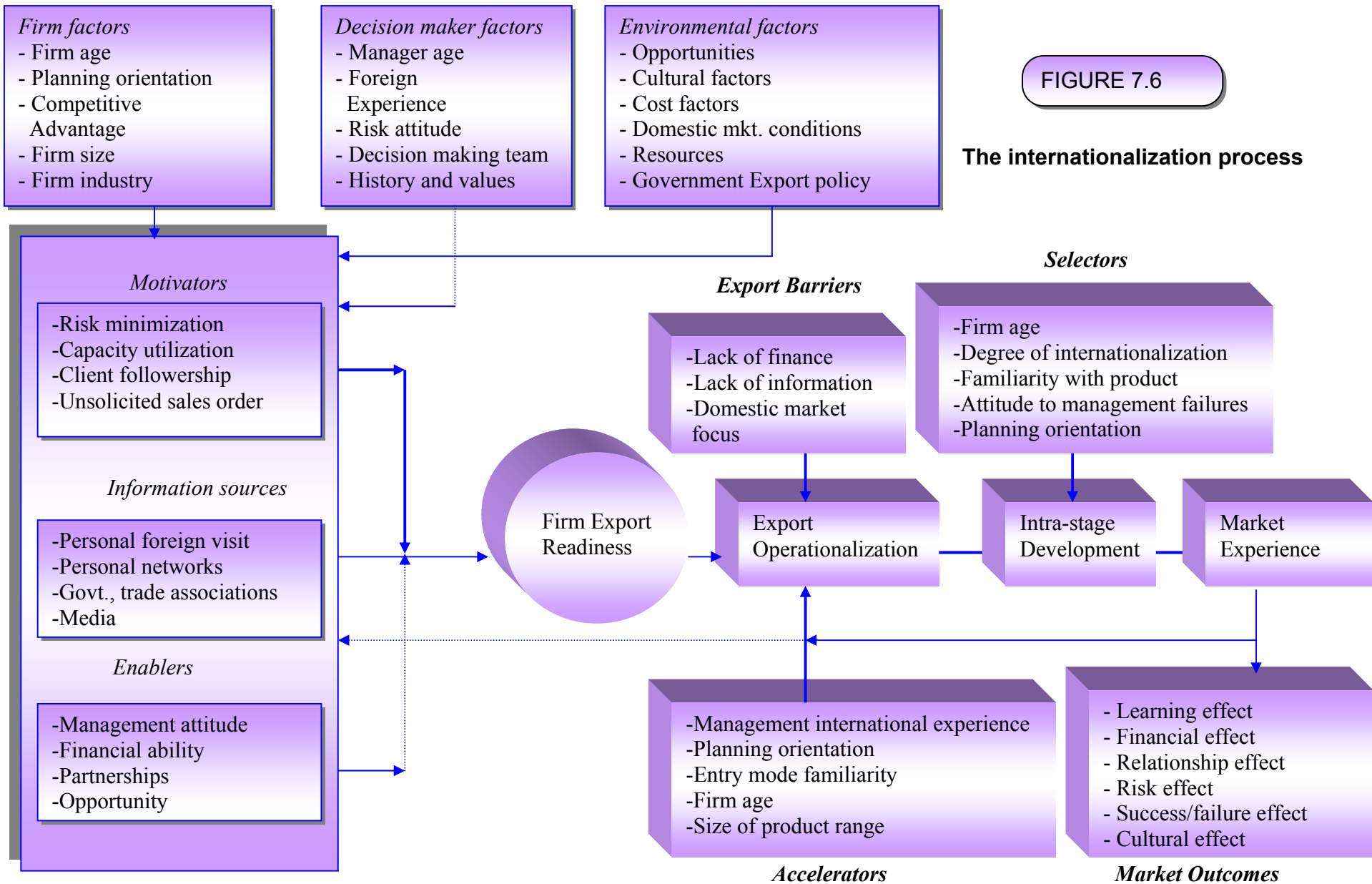
Familiarity breeds confidence and this “fanning out” from geographically close markets to geographically distant markets, may indeed partly explain the rapid expansion of foreign markets targeted by firms once they started exporting. 60% of the firms in the survey added 1-3 markets since internationalization, while 32% have added between 4 and 7 markets since internationalization began. These figures are impressive especially when consideration is given to the fact that 31% of the firms in the survey were established within the last 10 years. (See appendix 5)

Figure 7.6 below is a visual summary and a culmination of the discoveries made in this study on how the process of internationalization operates. This study has found an internationalization process that embraces far more variables than those envisaged in any study previously. The model that is offered here is used

as a basis for comparison with other models in Table 7.1. This model has identified three main forces that act on a firm's internationalization process, namely, the firm's export readiness, export barriers and export accelerators. Pearson Correlation coefficients, discriminant analysis, factor analysis and frequencies were used to place variables in their order of importance.

FIGURE 7.6

The internationalization process



** - Items are listed in order of importance.

Explaining the model

The model simply focuses on the international entrepreneurial firm without regard to its origin or from where it starts its international career. Reference to terms such as export and domestic market should not be viewed as limiting or implying that the international firm is of necessity domesticated at least initially. Rather, it is recognition of the fact that most firms are initially domestic firms, and that this study was based on exporting firms. The terms licensing, foreign manufacture, international joint venture or integrated worldwide manufacture could just as easily have been used instead of export. Therefore a mode neutral term such as international business is more appropriate.

The model also does not assume that the firm has had domestic business experience and thus has accumulated substantial financial resources with which to embark on an international career. In essence, the model can well apply to any international entrepreneurial firm. However what will vary is the order and content of the variables listed in each square depending on the different markets in which it is applied but the principle on which the model rests is firm and should stand internationally. For example, a software developer in South Africa developing and exporting via email software for an American customer is unlikely to have risk-minimization as the primary motivator of his action, but rather profit maximization and perhaps the establishment of a reputation in that industry as a secondary motive.

The domain that influences the initialization of the internationalization process is itself influenced by firm characteristics, decision maker characteristics and environmental factors. Each of these three factors are themselves preceded by antecedents. The optimum combination of these collective factors and initializers/triggers, at a point in time, will set the process motion. The critical effect on the motion of the process is the strength of the enablers. They make a difference between one firm internationalizing and another remaining

domesticated in spite of experiencing the same environmental, managerial competency and firm factors. The unknown quantity at this stage is the specific “hierarchy of effects” in this initialization/antecedent part of the process that will enable a firm definition of causality, which can then be tied to the specific outcomes given in the model so that the cause and effect will be completely evident. This is a subject of future research enquiry.

Firm export/international readiness is a function of three forces that act on the firm, namely: motivational factors, information sources and enabling factors. This has been referred to as the initial trigger domain. Export operationalization refers to the actual mechanics of carrying out international business. The everyday business details that are required to take that firm’s offering to the foreign market, for example, doing a search and evaluation of the methods of the best way of reaching the market, general planning, analyzing potential foreign market partners, completing the necessary documentation on so on. It is the process of giving life to the export idea. There are two forces that act in opposite directions that have an impact on this process. On the one hand, there are export barriers whose effect is to delay the commencement of international activity and or arrest or otherwise impede progress already begun. On the other hand, there are accelerators that act to speed up the commencement international activity and or speed up or otherwise encourage progress already begun.

As to how or what intra-stage development pattern a firm will employ once in the foreign market, will depend on the effect of a given set of selectors. The set of selectors given here may be termed internal selectors. That is those firm and managerial factors that have a bearing on the intra-market developmental pattern followed. However, there are external selectors also, that is those factors that are external to the firm and over which the firm has no control but nevertheless exert influence over the shape of the intra-stage developmental pattern. The external selectors have not been addressed here, and can perhaps be the subject of future research. Figure 1-5 given earlier in this chapter, are useful in explaining

the micro-processes that occur here. The total acceleration effect in present and future internationalization is in turn affected by current market experience. The feedback from the market experience affects perceptions in both the accelerator and the initial trigger domains, with the effect of even speeding up more or slowing down present and future internationalization. The micro-processes at work there are given in figure 6.1 of chapter 6. There are several spin-offs of market experience and these may be grouped as the learning effect, the financial effect, the relationship effect, the risk effect, the success or failure effect and the cultural effect.

- **The learning effect**

The experience in the foreign market will increase the entrepreneurial firm's stock of international and general management know-how that can be used as a reference for future internationalization and or domestic management. The actual market experience will have a modernising effect on the firm's psychological foreign market orientation. The learning process itself has both positive and negative aspects to it that a learning organization can put to good effect.

- **The financial effect**

The entrepreneurial firm can have positive financial benefits from its foreign market engagement. The venture may prove to be profitable at current investment levels or it may require further investments with a bigger expected payoff. The converse is also possible. It may have negative initial financial performance results that may necessitate further analysis of the market, or further injections of investment or a change of tactics or simply continuing in the current ways of business while waiting to see if there will be a change in fortunes.

- **The relationship effect**

The firm the firm as a result of its participation in the foreign market will establish new relationships with other actors in the foreign market. These relationships may be weak or strong and they have profound implications on future

international business. These new relationships may for example be so good form the basis of future formal/informal partnerships that may be the nucleus of future international business initiatives. Alternatively the experience with foreign relationships may negatively alter perceptions of international business and therefore affect the enthusiasm with which future international business initiatives are approached.

- **The risk effect**

Market diversification may bring risk reduction benefits that may result in a firm wishing to increase its proportion of foreign sales as a proportion of total sales. Conversely, the anticipated risk reduction arising from foreign market entry may not materialize. In fact, rather than experiencing risk reduction the firm may experience a risk increase or at best a risk substitution with its net risk remaining at pre-internationalization levels.

- **The success/failure effect**

Actual or perceived success or failure can have an enduring effect on a firm's memory and appetite for future endeavours where similar results could be obtained. Where foreign market entry has yielded positive benefits there is likely to be an aggressive interest in repeating that success. But, the opposite may be true where initial foreign market success has not been secured. While future international business may not be dropped from the firm's strategy, it will be approached with more caution or a change of tactics.

- **The cultural effect**

The sum total of the above effects will be to bring about a modification in the entrepreneurial firm's culture particularly as it relates to foreign business activity. It may introduce a cavalier culture, it may introduce a systematic culture, it may introduce a risk-sharing culture of approaching foreign markets through partnerships, or perhaps a slow foreign market engagement culture.

7.2 COMPARISONS WITH OTHER PROCESS MODELS

With the exception of Johanson and Vahlne's (1977) influential work on the process of internationalization and more recently Coviello and Munro's (1997) description of the internationalization process of small software companies from a network perspective, there is a noticeable dearth of process models that detail the specifics of the process. Much of the work in the process aspect of internationalization is confined to either criticism of existing models, generally Johanson and Vahlne's (1977) model without venturing to offer viable alternatives themselves or to offering prescriptions that are not empirically substantiated or only tenuously substantiated, or to the development of models that capture only the antecedent aspect of the internationalization process or one other aspect of the process. Holistic models of the process have not been forthcoming with the result that fruitful comparisons are as difficult to make as they are necessary for further process based theory building. However, with the limitations here outlined, a comparison of other process models with the model above is given in table 7.1 below.

TABLE 7.1

Comparisons of Internationalization process models

Basis of Comparison	Mtigwe 2003	Ibeh & young 2001	Coviello & Munro 1997	Clark et al. 1997	Bell 1997	Ellis & Williams 1995	Johanson & Mattsson 1988	Czinkota 1982	Johanson & Weidersheim-Paul 1977
Nature of model	dynamic	static	static/historic	static	static	dynamic	static	static	dynamic
Process direction	uni-directional	uni-directional	uni-directional	uni-directional	uni-directional	bi-directional	uni-directional	uni-directional	uni-directional
Process coverage	complete	antecedents	process-only	process-only	antecedents	antecedents/Process-only	process-only	antecedents	process-only
Theoretical background	entrepreneurship theory network & org learning theory	entrepreneurship theory	org. learning theory/ network theory	strategy theory	org. learning theory	org. learning theory	network theory	org. learning theory	org. learning theory/ economic/FDI theory
Sample size + country	494- SA/Zim	78 - Nigeria	4 N. Zealand	25-UK	98 UK/Iland	none UK	none Sweden	181-USA	4 – Sweden
Mkt. development pattern	non-linear	not given	linear	non-linear	linear	linear	linear	linear	linear
First Foreign Market	geographically close to home	anywhere	psychically close to home	anywhere	psychically close to home	anywhere	anywhere	psychically close to home	psychically close to home
First entry mode	export	export	export	export	export	export	export	export	export
Industry/sector	mixed	mixed	high tech.	mixed	high tech.	unknown	mixed	mixed	mixed
Intra-market development	linear	none	none	none	none	none	none	none	none
Firm size	small	small	small	small	small	not given	large**	large	large
Age at internationalization									
0-5yrs = Young 10+ = old	young	not given	young	not given	young	not given	old**	old	old
Cause	known Partially	known	partially Known	unknown	unknown	partially known	unknown	partially known	unknown
Effect	known	unknown	unknown	unknown	unknown	unknown	unknown	unknown	unknown
Analysis method/statistics	multivariate	multivariate	case study	descriptive	descriptive	none	none	multivariate	case study

** = Inferred

Summary of the entrepreneurial firm internationalization process

Combining what is known from Table 7.1 above and the various process models presented in chapter 3 and 4 above, there is a macro-perspective and a micro-perspective of the process that includes: the antecedents of internationalization, the process elements and the market outcomes of the process. The micro-perspective is concerned with the workings of the sub-processes within the three macro-headings. The methodological differences aside, the state-of-the art is that for the process of internationalization to start a firm must be impacted upon positively by a variety of factors. The starting point is the firm's own characteristics, the decision maker himself/herself and the environmental forces acting on the firm. There are internal and external triggers that act on the firm putting pressure on it to internationalize. Then there is a subset of firm-specific factors that are termed enablers that give impetus to the process at a point in time.

The actual process in the majority of cases is unidirectional or irreversible. That is not to say that there are no firms that experience foreign market failure or complete foreign market withdrawal otherwise known as retrenchment but rather that these are very few when compared to those that continue on the internationalization path. The general trend is that once a firm has adopted an international mindset, any foreign market failures are put down to experience and may slow future internationalizations or simply result in market substitutions, but the internationalization process will not stop.

The process itself begins with the export option of foreign market entry. This is one point on which all the process models examined are in agreement. There are well-documented deviations from this pattern See, for example, Johanson and Mattsson (1988) and Bell (1995), but the norm is export first. The first markets entered are generally close to the home market in a geographic sense but not necessarily psychically close. Market selection is based on the market's suitability in terms of the firm's objectives/motivations, perceptions, and

resources. However there is ample evidence of firms starting anywhere and more so where the two conditions are met and these are: extensive foreign management experience and or network partner following or assistance. The speed with which the internationalization process unfolds depends on: management's international experience, the firm's market entry mode, the firm's age and the firm's competitive advantage.

There are barriers to the process of internationalization as well as opposing forces that speed up the process. Once in the foreign market a firm will follow a non-linear pattern. In other words the entrepreneurial firm can start its internationalization using any market entry mode, although as we have already noted, export is generally the preferred mode. In the market itself, the firm follows a developmental pattern that could span its entire life within one entry mode. Some firms may go on to use optimal mode combinations or mode packages that are suitable for what it is they wish to accomplish, given their internal and external resources.

There are 6 outcomes arising from the foreign market experience and these are inputs to future internationalization activity. These outcomes are the learning effect, the financial effect, the relationship effect, the risk effect, the success/failure effect and the cultural effect.

7.3 SUMMARY

This chapter marked the climax of the search for knowledge on the internationalization process in small firms within the Southern African region. There were several important discoveries that were made in this chapter the highlight of which was the presentation of a new internationalization model. Looking at some of the important findings, first, it was shown that management attitude is the single most important determinant of whether or not a firm will internationalize and that previous foreign experience or travel by members of the top management team is positively correlated with the speed with which a firm internationalizes. Consequently, 72% of the firms surveyed reported having internationalized their business within the first 10 years of their existence.

Most of the firms surveyed completed their internationalization within one entry mode, as a deliberate strategic choice. The study found exporting as the most preferred market entry mode for the majority of respondent firms. In addition four intra-mode developmental patterns were identified. These are: pattern one also termed the perserverers, pattern two also known as golden adventurism, pattern three also referred to as nomadism and finally pattern four labelled conventionalism.

The initiating mechanism of internationalization operates through a dynamic interaction of firm factors, decision maker factors, environmental factors and motivators, enablers and sources of foreign market information. The principal motivator of internationalization in the southern African context is proactive risk minimization. Management attitude and foreign market information derived from personal foreign visits were the principal factors in the enablement system and information system respectively. It was further reasoned that the concept of psychic distance does not have a bearing on the foreign market entry decisions

of small firms in the Southern African region. Rather, firms enter nearby markets or markets that may seem to be psychologically close purely for economic reasons.

At the beginning of this study in chapter one, we set out to do two things. First: to discover how small firms in Southern Africa go through the process of internationalization and second to integrate the fragmented pieces of internationalization process research into a whole unit. Both these objectives have been met in the new internationalization model that has been developed and presented in this chapter. This new model of internationalization not only integrates previous process-based work but it goes beyond that to extending the boundaries of present knowledge in small firm internationalization.

The model introduces several dynamics not seen before in any one model of internationalization. These include the fundamental aspects of the motivation domain, intra-foreign market development processes and the feedback mechanisms that modify the process on an on-going basis. As a result of this new model of internationalization, we are now in a position where we can match the theoretical level more closely with what is happening in practice than has ever possible. We are in a better position to know what needs to be done for a small entrepreneurial firm to internationalize and we are in a better position to predict whether certain small firms are likely to internationalize or not. In essence, this chapter is the answer to all the research questions that were raised in chapter one and the embodiment of the thesis topic: *“The internationalization process of small-to-medium size enterprises (SMEs) in the African context: A comparative study”*

What follows in chapter 8 below is an amplification of some of the issues already raised and making conclusions about those issues particularly in relation to what the findings of this thesis mean to the study and practice of international business. Chapter 8 also makes recommendations for both policy makers and academics some of which are relevant for practitioners of international business.

CHAPTER EIGHT

CONCLUSION AND RECOMMENDATIONS

8.1 CONCLUSION

Several important conclusions have been reached in this study, but four are worthy of special note and these are that:

- The process of internationalization for most small firms is planned and set in motion by an optimum combination of stimuli, enabling artifacts and information processing.
- The entire process begins and ends within a single mode/stage (exporting) for most small firms in this region.
- There is a common intra-stage development pattern for most small firms in this region.
- There is a preference for neighbouring country markets as the initial markets of export.

8.2 PROCESS DRIVERS

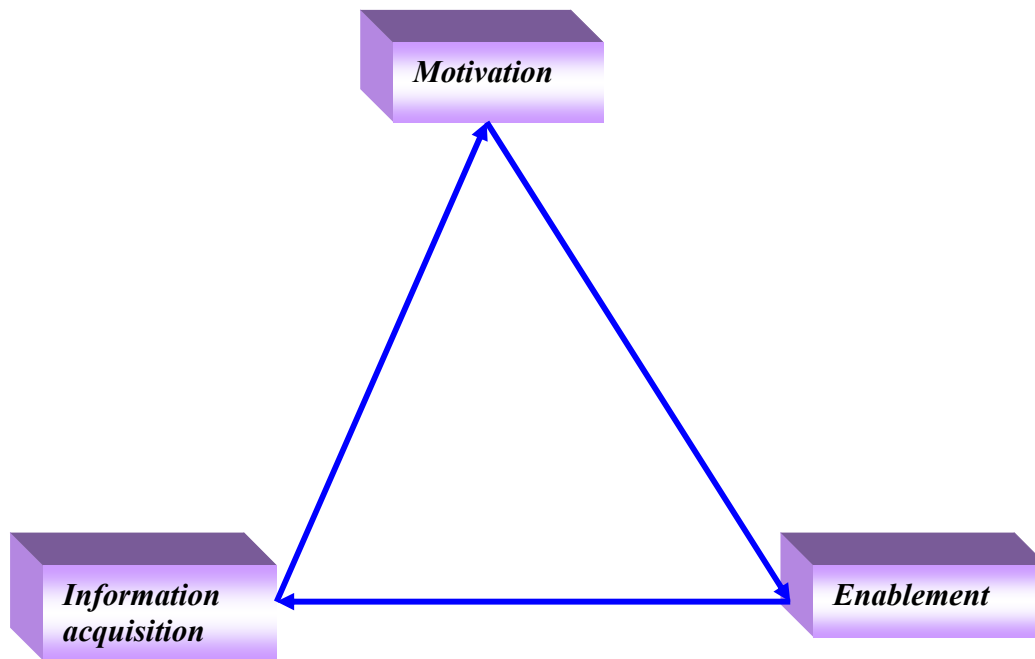
The evidence presented in this study suggested a deliberately planned internationalization process in contrast to the serendipitous pattern identified by Brush (1995) in her study of firm age on motives for internationalization. However, this study concurs with her view regarding the form that that planning takes. It may quite possibly be interpretative rather than formalized. This planned approach to the process is not surprising when consideration is taken of the principal motivating factors of internationalization, which in this case are proactive (risk reduction and capacity utilization). For some studies the process is reactive, for example responding to an unsolicited export order or following a client to foreign markets. In the case where the process is reactive, serendipity tends to predominate planning (Bilkey and Tesar, 1977; Brooks and Rosson, 1982).

Further to that, it was essential that certain imperatives, which we have termed enablers, (a positive managerial attitude, financial ability, partnerships and opportunity) be in place before the process takes effect. Experiential market knowledge acquired through personal foreign visits cemented the initiating mechanism. Previous studies have tended to consider the elements in a less holistic manner than what has been attempted in this study. A wide range of variables were subjected to frequency statistics as well as discriminant analysis and the variables set out above were isolated as being the most important process drivers. Further testing of the relationships among the initiating mechanisms and the sub-processes within each of the 3 arms of initiation, would be useful in leading us to a better understanding of how to kick-start internationalization in those firms that are not predisposed to it. Conceptually the initiating mechanism may be represented as a triangle, at the apex of which is the motivational mechanism, followed by the enablement

and information acquisition processes on the two sides, all of which act interdependently.

FIGURE 8.1

The initiating mechanism of internationalization



Note: Figure 7.6 in chapter 7 provides constituent details of each of the three arms of initiation

The implications of this from a public policy point of view on export promotion programmes, is that policy makers should profile managers instead of companies to be targeted for export assistance Dichtl *et al.* (1990), Gray (1997) and provide a differentiated service tailor-made to the requirements of the identified managerial clusters, since it has been confirmed both in this study and others that managerial attitude and managerial characteristics are the key enablers of internationalization (Simpson and Kujawa, 1974; Wiedersheim-Paul *et al.*, 1978; Oviatt and McDougall, 1994 and Reuber and Fischer, 1997).

Additionally, if the other variables of the enablement arm (financial ability, partnerships and opportunity) are addressed, then export barriers will simultaneously decline. Examples include the use of export promotion programmes that set up strategic alliances/partnerships between various categories of exporters (Chetty and Blackenburg-Holm, 2000; Leonidou, 2000; Ibeh and Young, 2001 and Shrader *et al.*, 2001). This co-operative thrust among firms can be enhanced via the creation of localized regional clusters where firms (particularly new ones) in the same industry can be placed in one locality where localized networks will develop and institutionalized support for international activity will exist. From an African perspective, this will also be helpful in terms of making it easier to collect and maintain more accurate sector statistical information as well as encouraging networking and emulative behaviour that will lead to greater export activity (Brown and Bell, 2001; Sopas, 2001 and Bonaccorsi, 1992).

In view of the fact that it has been found that the age variable for both the firm and firm managers is important in the speed with which internationalization takes place, export promotion programmes should therefore also consider having age related and need based initiatives for different categories of firm and manager combinations. For example a small firm that is between 0-5 years old and with principal managers in the 31-40 year age group is likely to internationalize faster than any other firm-manager age category and therefore the priority list of the needs in this firm-manager age category is likely to be different to the other categories. Therefore sensitive export promotion programmes that are designed to cater for salient category differences are likely to be more effective in the long run even if they are difficult and costly to develop as well as implement in the short run. Furthermore, the growing incidence of born international small entrepreneurial firms makes it prudent if not imperative to promote the virtues of international business and offer support to potential international entrepreneurs currently employed within organizations or within institutions of learning.

Network co-operation can also be encouraged among domestic competitors for them to act as a unit in foreign market ventures, if not in all foreign market entry, then on specific assignments (Johnsen and Johnsen, 1999). Export promotion can also be in the form of incentive export promotion programmes that reduce the financial burden on would-be exporters and put firms in a much better resource position to take advantage of foreign opportunities (Dichtl *et al.*, 1990; Leonidou, 2000 and Ibeh and Young, 2001). After all, the lack of financial ability was cited as a the principal barrier to internationalization and therefore it is likely that small firms that are well disposed to international business may in fact internationalize even faster if they can receive the necessary financial support.

In tandem with enablement, information acquisition must be supported through careful targeting. The quality and usefulness of publicly available foreign market information provided by government funded export assistance programmes are increasingly being questioned (Reid, 1984; Crick *et al.*, 1994). It has been established that regional firms prefer acting on the basis of 'first hand' information acquired through personal foreign visits. Therefore, while the provision of supporting secondary information is useful for the information acquisition process of export-oriented managers, it is not principal basis upon which export commitment decisions are made. It follows then, that underwriting the travel expenses of target firm managers may prove more useful, if the intention is to stimulate internationalization.

An important but often overlooked internationalization barrier is the perceptual barrier. Perceptual barriers are just as inhibiting as practical barriers in the internationalization process of small firms and yet perceptual barriers are probably the easiest problem that governments can address through encouragement and education via focused advertising.

8.3 SINGLE-MODE INTERNATIONALIZATION

The results of this study do not support incremental internationalization as a general pattern of behaviour for internationalizing small firms in the Southern African region. However, what this study found, are multiple entry modes that are not necessarily mutually dependent. In other words export need not be the first foreign market entry mode choice for all firms. Indeed this study found that this was not the case. 8% of the firms connected directly to a foreign market entry mode choice without necessity of first exporting before getting to that level (see appendix 10). In essence the argument presented here is that there are two pure routes to internationalization, which are the establishment chain route, the “direct access” route or a hybrid of the two occurring within the same firm (Buckley and Chapman, 1997; Clark, *et al.*, 1997; Petersen and Welch, 2002). These basic routes of internationalization are in evidence in appendix 10.

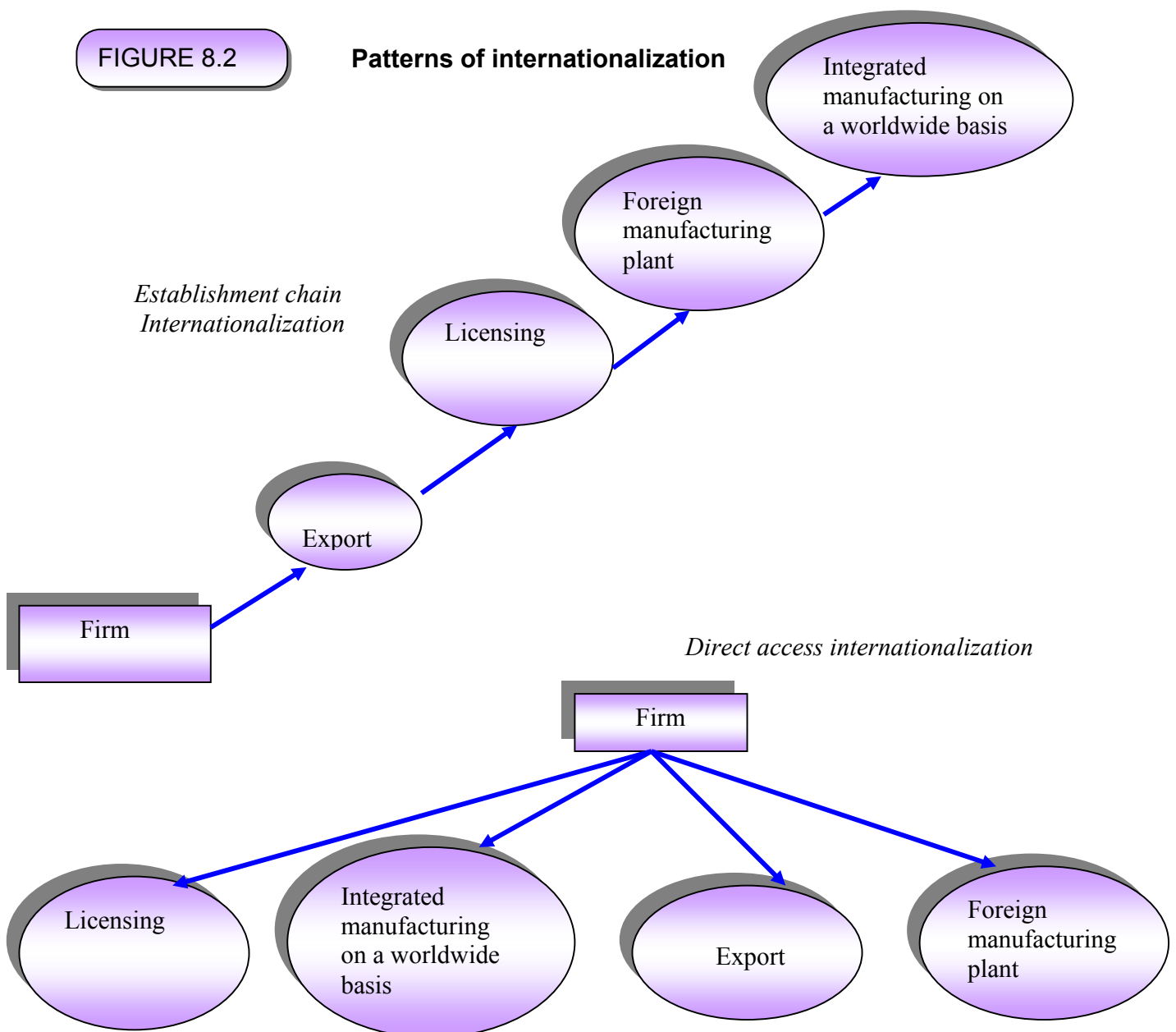
In fact, when the export-only mode is combined with other direct entry methods, then it is found that 94% of the firms use direct access internationalization compared to only 8% that follow the sequential establishment chain route. It is possible however, that the figure direct access international firms will decline somewhat if some export-only firms decide to combine exporting with a higher stage thereby exhibiting the typical behaviour of Uppsala internationalization, as some will invariably do. However, as noted earlier in chapter 7, only a small percentage of current exporter firms will embark on that direction. Figure 8.2 below presents the two basic routes to internationalization.

It is important to note that this research has not argued that the incremental internationalization is fallacious but rather that its universal application is. Therefore it is important to isolate and specify conditions under which incremental internationalization will take place because more and more firms

particularly certain types of small firms with an internationally-minded management are not exhibiting this pattern of internationalization. It is also important to recognize that in the models given below, the firm can carry out foreign manufacture and integrated worldwide manufacture in its own capacity as a single firm or through international joint ventures. For this reason international joint ventures do not appear as a separate option.

FIGURE 8.2

Patterns of internationalization



In the case of direct access, a firm will connect directly to any particular internationalization mode of choice without necessity of going through a gradual step-by-step movement along a particular route as in the case of incremental internationalization. Some form of establishment chain will occur within the mode rather than across the modes. That intra-modal form may involve leapfrogging some stages or it can follow a sequential pattern depending on the competitive situation, management's international experience, firm characteristics and goals, the contribution of internationalization development partners, the organisation's learning capability as well as its financial ability.

Possible intra-mode establishment chains have been identified in chapter 6 and amplified in chapter 7. The single mode internationalization found in this study, and discussed in considerable detail, fits this pattern of behaviour, as do the born global firms (McDougall *et al.*, 1994; Bell, 1995; Coviello and Munro, 1997 and Madsen and Servais, 1997). The focus of future studies should be to isolate variables that determine which direct access method a firm will choose in its internationalization, using discriminant analysis, factor analysis and cluster analysis, as well as building predictive models of how individual small firms are likely to internationalize. This has obvious attractions from a public policy point of view.

8.4 INTRA-MODE DEVELOPMENT PATTERN

One of the criticisms of the incremental model centres on the lack of clarity on the inter-stage development pattern (Turnbull, 1987). A similar argument is pertinent for single mode internationalizers. What are the intra-mode developmental patterns like and how are they initiated. This study has addressed itself to identifying and describing the intra-mode developmental patterns exhibited by exporters in the southern African region, as well as making an exploratory adventure in explaining their initiation. It is clear that there is an intra-

mode development pattern for every firm, and this is an aspect that has not received attention in extant literature and future studies may need to address this knowledge gap.

In view of the foregoing observation about the existence of intra-mode development patterns, it would be instructive to see if similar intra-stage/ intra-mode development patterns identified for the export mode will apply in the other internationalization modes. Simply put, do we find the intra-mode developmental patterns of perseverance, golden adventurism, nomadism and traditionalism also occurring in other direct access internationalization modes such as: foreign sales subsidiary, foreign manufacture and integrated worldwide manufacture or are these patterns peculiar to internationalization through exports? Further to that, it can be inferred that whilst many firms use hybrid forms of internationalization or “mode packages” that combine the two pure forms of internationalization in different combinations, the basic internationalization process detailed in Figure 7.6, with its amplified initiating mechanism in Figure 8.1 will apply.

8.5 GEOGRAPHIC SCOPE OF INITIAL INTERNATIONALIZATION

For most firms the international business roll out plan begins with geographically close markets before moving on to those markets that are further from home. This behaviour is consistent with the “fanning out” approach identified in the earlier works on internationalization, however in this case it was for different reasons (Vernon, 1966; Johanson and Weidersheim-Paul, 1975 and Johanson and Vahlne, 1977). According to Vernon (1966), Johanson and Weidersheim-Paul (1975), and Johanson and Vahlne (1977) the concept of “psychic distance” explains this behaviour of starting with geographically close markets before going to geographically distant markets. They reasoned that, with a few exceptions, psychic distance is correlated with geographic distance therefore firms start with nearby markets because these are generally similar in terms of language,

political systems industrial development and culture, meaning that managers are more comfortable with these markets.

However, given the motives for internationalization by firms in this study, and the fact that in the African context, markets are third world in nature with strong historic ties to European countries and that the markets are culturally different, in a way that is similar to that identified by O'Grady and Lane (1996), in their Canadian and American study of the psychic distance paradox, where they found that geographically close and seemingly psychically close markets, are in fact very different in practice, it follows then that the concept of psychic distance is of questionable applicability (Viviers *et al.*, 1996). In fact some geographically close markets are so psychically distant that they might as well be on the other side of the world. Perhaps nowhere is this more pronounced than in Africa. For example South Africa compared to regional countries such as Madagascar, Angola, Mozambique, Zaire, Sierra Leone, and Egypt. These markets are geographically close to South Africa and at the same time so psychically distant, and yet some South African exporters find these markets attractive first markets for their products for reasons other than their psychic proximity.

The preference for nearby markets is best explained by the premium placed on "*swift and internationally coordinated action*" Sanders and Carpenter (1998), knowledge of local companies who have a presence in those markets and contacts in those markets Coviello and Martin (1999), perceived demand for the firm's product O'Farrell *et al.* (1998) and Clark *et al.* (2001), the nature of the product and perceived competitive strength Benito and Gripsrud (1992) and O'Farrell *et al.* (1998), the desire for risk reduction Johnsen and Johnsen (1999), economic and managerial costs Clark *et al.* (2001) and Fillis (2002), and testing product acceptability in foreign markets/foreign market experimentation (Ibeh and Young, 2001). Nevertheless, the learning derived from these nearby markets arm the firm primarily, with enough confidence and secondly, with enough financial

resources to increase the number and geographic dispersion of markets entered into (Erramilli, 1991).

8.6 LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

The results of this study must be interpreted in light of the limitations outlined below:

The number of variables used to define constructs was limited with the result that a full picture of a particular construct was not possible to obtain. For example the environmental characteristics are described by just three variables, which are: external conditions, domestic market and cultural influences. While this study amongst others such as Simpson and Kujawa (1974); Bilkey (1978); Crick (1995); Ibeh and Young (1999) and Leonidou (2000), has identified the environmental construct as being important, future studies need to better articulate all the variables influencing that construct as well as the inter-relationships amongst those variables in a way that was not possible in this study.

Hypothesis 2, which posited that: the “windows of opportunity” through which a firm internationalizes are constantly opening and closing alternately causing uncertainty on a firm’s entry mode choice, was excluded from the research because of the difficulties encountered in trying to operationalize it.

While the sample size used was adequate to make inferences about the internationalization behaviour of firms in the southern African region, it is not large enough to make Africa-wide generalizations and much less developing world generalizations because it is quite possible that confounding differences can be identified in other developing regions. Therefore, similar studies need to be carried out in different localities around the developing world before

generalizable conclusions can be made about small firm internationalization behaviour in the developing world (Ogbuehi and Longfellow, 1994; Leonidou and Katsikeas, 1996).

From a methodological perspective, the study could have been enriched by the use of multiple survey techniques and several key informants within each firm rather than relying on a single key informant in the firm because of the measurement errors that result due to respondent bias (Phillips, 1981). However, in this case the use of several informants within one firm was not possible because the required knowledge often rested with one individual. The sampling technique used in this case, simple random sampling, has some limitations particularly in regard to accuracy. Future studies need to examine the possibility of using Probability sampling techniques that would yield more accurate results.

This study provides a static picture which captures the internationalization process at a particular point in time and furthermore, it is an examination of firms already engaged in exporting meaning that the internationalization process is expressed from an oral historical perspective which is not very reliable (Andersen, 1993; Sullivan, 1994 and Leonidou and Katsikeas, 1996). However the weaknesses outlined above notwithstanding, this study presents a generally accurate portrayal of the internationalization process. The measurement error is not of the magnitude as to render the conclusions unreliable.

What is needed in future studies is a dichotomization of exporters and non-exporters whose behaviours are then analysed in tandem at prescribed intervals using the same measurement instrument on the same sample. That way the export development process will be captured more accurately (Westhead, 1995). Not only that, but a carefully designed and managed multi-national, multi-industry study using the same measurement instrument administered on similar firm sizes, equal sample sizes, similar key informants, using the same methodology, and at the same time is needed to provide an up-to-date, tested and definitive

theoretical foundation of internationalization. By virtue of its scale, co-ordination and financial requirements, such a study can only be centrally planned, monitored and reported under the auspices of a respected international body, such as the Academy of International business (Dunning, 1989; Andersen, 1993; Dominguez and Sequeira, 1993; Sullivan, 1994; Leonidou and Katsikeas, 1996 and Clark *et al.*, 1997).

It would also be useful if in future individual researchers focused on two things:

- Replicating as closely as possible, previous studies on internationalization in their various countries, but taking note of the methodological shortcomings of those previous studies and particularly the reliability and validity issues. This will facilitate cross-comparisons of various studies globally and a coherent body of literature will begin to emerge.
- Integrating existing works on internationalization into a more organized body of knowledge to the end that a more commonly accepted theory may emerge. In this way the theory building exercise and hypothesis testing will occur simultaneously (Sullivan, 1994).

Some researchers have suggested the use of case studies as the ideal method of in-depth study of internationalization and tracking progress longitudinally (Coviello and Munro, 1997; Driscoll and Paliwoda, 1997). The Case study method would indeed be a useful starting point for variable analysis and construct development as well as making it possible for researchers to get a generally better understanding of the phenomenon under investigation. However, for purposes of ensuring validity and reliability, case studies need to be supplemented with cross-sectional survey techniques. After all, the original work on internationalization in stages by Johanson and Weidersheim-Paul (1975) was based on a case study of four Swedish firms, and it has been

subjected to severe criticism owing in part to that very point (Reid, 1984; Turnbull, 1987).

This study has found overwhelming support for single stage internationalization and it remains to be seen from future studies just how prevalent this behaviour is among internationalized small firms, particularly in the developing world. Many of the firms in this study exhibited the type of mature behaviour that would normally be expected of firms at higher stages of internationalization in traditional literature, in terms of their geographic coverage and the proportion of their sales coming from foreign business. The general assumption underlying internationalization literature is that all firms are created equal. They have the same motivations, the same opportunity, the same ability and that in time they will grow through each stages of internationalization until they are multinational corporations in the nature of Coca Cola, Unilever, Colgate Palmolive and so on.

The conclusion made in this study is that that is not the case, at least not for firms in this region. Most have grown to an optimum size within a single stage, that of being an exporter as a deliberate strategic choice, indicating no intention whatsoever of increasing their foreign market commitment in the form of starting foreign production in spite of the foreign sales volumes being sufficiently large to justify such foreign production and the firms possessing the necessary experience and resources to carry out foreign production. From this practical insight, it is evident that some small firms believe that small is beautiful and prefer to remain small throughout the course of their lives. This is a proposition that future studies may need to explore further.

The causal relationships identified in the motivational domain or antecedent part of Figure 7.6 in chapter 7, need to be amplified so that causality can be more accurately understood and assigned to the outcomes that were also identified.

Similarly, future researchers on internationalization may also need to examine the nature of intra-stage developmental patterns and how these affect future internationalization decisions. This study found that there seems to be common intra-stage developmental pattern experienced by most exporters. However, future research needs to amplify this aspect and make qualitative and quantitative judgements about how the experience intra-stage affects managerial risk perceptions and future foreign business activity. This part of future research enquiry should also isolate the intra-stage development patterns across the full range of internationalization entry modes.

This study has made an important contribution to the knowledge of international business, first by bringing to the fore previously ignored issues such as single stage/mode internationalization and intra-mode development, and secondly, by testing in the context of two Southern African developing countries, assumptions made on small firm internationalization in developed countries. The result of this process was the development of a new internationalization model that is indeed the state of the art in internationalization literature. The significance of this model is that brings the theoretical level much closer to what is observed in the real world of international business more than any other single model has done previously. Furthermore, the model integrates available knowledge on the internationalization process of small businesses into a more meaningful whole that future research enquiry can more easily draw on and build upon. New knowledge has been created and the conceptual framework on the process by which firms internationalize is better understood as are the policy imperatives that lead to better international business development. The thesis topic entitled: *“The internationalization process of small-to-medium size enterprises (SMEs) in the African context: A comparative approach”*, has been satisfied in the contents of this thesis to the extent that future process-based research on small firm internationalization can only grow from strength to strength starting from this robust foundation that has been laid.

8.7 SUMMARY

This chapter amplified the internationalization process that was discussed in the previous two chapters. The initiating mechanism and its three process drivers of motivation, enablement and information acquisition were revisited. The major findings of this research are stated as follows:

- The initial markets of interest are other African countries that are closer to the home market.
- Single mode internationalization is more prevalent for small firms in this region.
- Firms follow different intra-mode establishment chains that are dependent on a set of selectors that are: the firm's age, its market entry mode or degree of internationalization, its familiarity with the export product and whether or not its internationalization was planned.

Additionally, several limitations of the study were identified. These were:

- The constructs used in the study are limited.
- The sample size is relatively small and the sample technique is not the most accurate available but is still adequate to enable valid qualitative and judgements to be made about the internationalization process.
- A cross sectional survey design that relies on historical information from key informants is used.

Recommendations for future research were made as well noting the implications of the study on future small firm internationalization particularly from a policy-making point of view. Recommendations for future research include the need to replicate previous studies in as many different market environments as possible while at the same time eliminating the

methodological weaknesses of past research and integrating the research on the other hand. There is need to explore the prevalence of single mode internationalization and what intra-mode developmental patterns there may be elsewhere. From a policy-making point of view, there is need to re-examine the type of export assistance programmes available to small firms and the quality of foreign market information made available. In closing, the study has added valuable new knowledge that the field of international business can benefit from. From this point forward, we are better equipped to understand the internationalization process of the small entrepreneurial firm than has been possible to date, and particularly so in the African context.

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Appendix One

Foreign supplier help and degree of internationalization and industry factors cross-tabulation

		Degree of internationalization		
Industry	foreign supplier help	High	Low	Total
Medical/health	Some help	15	0	15
Construction	No help	0	41	41
Agribusiness	No help	41	28	69
Computer/elect.	No help	0	15	15
Retailing	No help	0	15	15
Pharmaceutical	No help	0	15	15
Manufacturing	Some help	0	16	16
	No help	14	214	228
	Some help	0	9	9
Total		70	353	423

N = 494

Missing values = 71

Appendix Two

Industry and intra-stage establishment cross-tabulation

Industry	Intra-stage establishment pattern				Total
	Pattern 1 Perseverers	Pattern 4 Adventurers	Pattern 3 Nomads	Pattern 2 Traditionalists	
Service	29	30	0	13	72
Manufacturing	197	103	64	15	379
Total	226	133	64	28	451

N = 494 Missing values = 28 Unspecified patterns = 15 Chi-square = 184.327 df. = 5 Sig. = .000

Appendix Three

Firm age and mode of internationalization cross-tabulation

Firm Age	Mode of internationalization		
	Export	Non-Export	Total
<5 years	54	0	54
5 – 10 years	76	15	91
11 – 15 years	71	0	71
16 – 20 years	37	0	37
21 < years	179	55	234
Total	417	70	487

N = 494 Missing values = 7 Chi-square = 45.065 df. = 5 Sig. = .000

Appendix Four

Market entry speed and firm age and mode of internationalization cross-tabulation

Exports started	Firm age	Mode of internationalization		
		Export	Non-Export	Total
From day one	1 – 10 years	52	0	52
Less than 5 years ago	1 – 10 years	65	15	80
	11 – 21 years	96	13	109
Less than 10 years ago	1 – 10 years	13	0	13
	11 – 21 years	68	28	96
Less than 15 years ago	11 – 21 years	55	0	55
Less than 20 years ago	11 – 21 years	55	14	69
Total		404	70	474

N = 494

Missing values = 20

Appendix Five

**Firm age and number of markets added since internationalization
cross-tabulation**

Firm Age	Foreign Markets Added				
	1 – 3	4 – 7	8 – 12	18 or more	Total
< 5 years	14	28	0	12	54
5 – 10 years	51	28	12	0	91
11 – 15 years	43	14	14	0	71
16 – 20 years	37	0	0	0	37
21 < years	137	82	0	0	219
Total	282	152	26	12	472

N = 494 Missing values = 22 Chi-square = 228.812 df. = 20 Sig. = .000

Appendix six

Frequency table of the motivations of internationalization

	Frequency	Percent
Risk reduction	121	24
Capacity utilization	100	20
Client followership	56	11
Unsolicited sales orders	54	11
Desire for greater sales	45	9
Government incentives	29	6
Foreign friend/family encouragement	28	6
Decline in sales	26	5
Confidence in the product	14	3
Foreign business contact encouragement	12	2
Other reasons	9	2
Total	494	100

N = 494 Missing values = 0

Appendix Seven

Industry affiliation and speed of foreign market entry cross-tabulation

Industry	Speed of foreign market entry					Total
	From day one	within 5 yrs	within 10 yrs	within 15 yrs	within 20 yrs	
Medical/health		15				15
Construction	13	28		14	14	69
Agribusiness		41	28			69
Computer/elect.		15				15
Retailing					15	15
Pharmaceutical		15		16		31
Manufacturing	39	81	81	25	40	266
Total	52	195	109	55	69	480

N = 494 Missing values = 14 Chi-square = 294. 608 df. = 30 Sig. = .000

Appendix Eight

Firm age and motives for internationalization cross-tabulation

Firm Age	Motives for internationalization							Total
	Risk Reduction	Capacity Utilisation	Client Followership	Unsolicited Sales order	Desire for Greater sales	Govt. Incentives	Other	
0 – 1yrs		7						7
<5 yrs	14	12	15	13				54
5 – 10 yrs		38	12	13		15	13	91
11 – 15 yrs	28		15			14	14	71
16 – 20 yrs		15					22	37
21 < yrs	79	28	14	28	45		40	234
Total	121	100	56	54	45	29	89	494

N = 494 Missing values = 0 Chi-square = 393.949 df. = 35 Sig. = .000

Appendix Nine

**Manager age and speed of firm internationalization
cross-tabulation**

Manager Age	Speed of firm internationalization		
	High	Low	Total
20 – 30yrs old	0	0	0
31 – 40 yrs old	170	14	184
41 – 50 yrs old	103	73	176
51 – 60 yrs old	56	11	67
61 + yrs old	28	26	54
Total	357	124	481

N = 494 Missing values = 13 Chi-square = 567.544 df. = 8 Sig. = .000

Appendix Ten

Frequency table of entry mode choices

	Frequency	Percent
Export only	424	86
Exports and foreign direct investment	28	6
Other entry modes	42	8
Total	494	100

N = 494 Missing values = 0

Appendix Eleven

Frequency table of export destinations

	Frequency	Percent
Exports to Africa only	241	49
Exports overseas only	54	11
Exports to Africa and Overseas	129	26
Unspecified destinations	70	14
Total	494	100

N = 494 Missing values = 0

Appendix Twelve

Research Questionnaire

UNIVERSITY OF PRETORIA

**RESEARCH TOPIC: THE INTERNATIONALIZATION OF SMALL
BUSINESSES IN THE AFRICAN CONTEXT: A COMPARATIVE APPROACH**

FOR
OFFICE
USE
ONLY

Please feel free to complete this questionnaire as honestly as possible. There are no right or wrong answers. The questionnaire is part of a Doctor of Commerce dissertation, which is a requirement of the University of Pretoria. The University and the researcher guarantee that no names or any part of the information provided in this questionnaire will be used for anything other than legitimate academic purposes. Therefore, the information you provide is strictly confidential. Please tick one box in each case unless instructed otherwise.

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SECTION A

COMPANY NAME

1. Please indicate the industry that your company is in.

- | | | | | | |
|-------------------------|--------------------------|-----|----------------|--------------------------|-----|
| Medical/Health services | <input type="checkbox"/> | (1) | Pharmaceutical | <input type="checkbox"/> | (7) |
| Construction | <input type="checkbox"/> | (2) | Financial | <input type="checkbox"/> | (8) |

V1

- | | | | | | |
|-----------------------|--------------------------|-----|-------------------|--------------------------|------|
| Agribusiness | <input type="checkbox"/> | (3) | Hospitality | <input type="checkbox"/> | (9) |
| Automotive | <input type="checkbox"/> | (4) | Telecommunication | <input type="checkbox"/> | (10) |
| Computers/Electronics | <input type="checkbox"/> | (5) | Travel | <input type="checkbox"/> | (11) |
| Retailing | <input type="checkbox"/> | (6) | Other | <input type="checkbox"/> | (12) |
- [Please name it]

--	--

1b. What is your company's main export product/service?

.....

2. How many employees (including management) does your company have?

- Less than 10 (1)
- 11 – 40 (2)
- 41 – 80 (3)
- 81 – 120 (4)
- Above 120 (5)

V2	

3. When was your company established?

- Less than 5 years ago (1) 16 – 20 years ago (4)
- 5 – 10 years ago (2) 21 or more years ago (5)
- 11 – 15 years ago (3)

V3	

4. In which range does your company's annual turnover fall? (***This question is merely intended to classify the company into small and medium scale business categories by revenue only.***)

- Under R1 000 000 (1) R11 million - 20 million (3)
- R1 000 0001 - 10 million (2) R21 million and 30 million (4)
- R31 million and above (5)

V4	

6. What percentage of your total sales turnover comes from exports/international business income?

- 1 – 20% (1) 61 – 80% (4)
- 21 – 40% (2) 81 – 100% (5)
- 41 – 60% (3)

V5	

7. The main product/service that you export has been in the company's range of product's for:

0 – 3 years	<input type="checkbox"/>	(1)	9 – 11 years	<input type="checkbox"/>	(4)	V6
3 – 5 years	<input type="checkbox"/>	(2)	12 years and above	<input type="checkbox"/>	(5)	
6 – 8 years	<input type="checkbox"/>	(3)				

8. How many foreign markets does your company service at present?

1 – 3	<input type="checkbox"/>	(1)	13 – 17	<input type="checkbox"/>	(4)	V7
4 - 7	<input type="checkbox"/>	(2)	18 and above	<input type="checkbox"/>	(5)	
8 – 12	<input type="checkbox"/>	(3)				

9. What is your job title in the company?

Chief Executive Officer	<input type="checkbox"/>	(1)	Marketing Manager	<input type="checkbox"/>	(4)	V8
Managing Director	<input type="checkbox"/>	(2)	Other (<i>please give details</i>)	<input type="checkbox"/>	(5)	
Export Manager	<input type="checkbox"/>	(3)			

10. Please state your age group.

20 – 30 years old	<input type="checkbox"/>	(1)	51 – 60 years old	<input type="checkbox"/>	(4)	V9
31 – 40 years old	<input type="checkbox"/>	(2)	61 years old and above	<input type="checkbox"/>	(5)	
41 – 50 years old	<input type="checkbox"/>	(3)				

11. How many countries had you travelled to before joining or founding this company?

None	<input type="checkbox"/>	(1)	8 – 11	<input type="checkbox"/>	(4)	V10
1 – 3	<input type="checkbox"/>	(2)	12 and above	<input type="checkbox"/>	(5)	
4 – 7	<input type="checkbox"/>	(3)				

12. (a) Have you lived in a foreign country before joining or founding this company?

Yes	<input type="checkbox"/>	(1)	No	<input type="checkbox"/>	(2)	V11

(b) Have you worked for 6 months or more in a foreign country before joining founding this company?

Yes	<input type="checkbox"/>	(1)	No	<input type="checkbox"/>	(2)	V12

13. Were you born in South Africa?

						V13

Yes (1) No (2)

(If No, Please indicate where you were born).....

SECTION B

Please indicate the extent of your agreement or disagreement with the statements below by circling one number only, which best expresses your feelings.

14. Exporting is a very risky exercise.

Strongly disagree 1 2 3 4 5 6 7 strongly agree

V14	

15. The overall cost of exporting is very high.

Strongly disagree 1 2 3 4 5 6 7 strongly agree

V15	

16. Exporting involves far too many hassles for our company to add more foreign markets.

Strongly disagree 1 2 3 4 5 6 7 strongly agree

V16	

17. The decision to go international was the result of many years of preparation on the part of our company.

Strongly disagree 1 2 3 4 5 6 7 strongly agree

V17	

18. The most senior management of our company wish in future to change the way our company does international business, from being just an exporter to operating foreign subsidiaries.

Strongly disagree 1 2 3 4 5 6 7 strongly agree

V18	

19. Would you say that the start of your company's international business activities was:

Planned (1) Or it was by chance (2)

V19	

20. If it was **planned** please continue with question 20.
If it was by **chance** please go to question 21.

21. Who made the decision to go international?

(a) The Chief Executive Officer alone (1)

(b) The CEO and the General Manager (G.M.) (2)

V20	

- (c) The CEO, G.M, Operations Manager, Marketing Manager (3)
- (d) Mainly the Export Manager alone (4)
- (e) Some other combination of individuals (5)
(Please specify their positions in the company)
-
-

22. What actually triggered your company's decision to go international more than anything? *(Please rank in order of importance, 5 factors which had the greatest influence. Number the factors 1 to 5)*

- | | |
|--|--|
| (a) The desire to reduce the risk of relying on one market <input type="checkbox"/> | (i) We followed a major client to their foreign market <input type="checkbox"/> |
| (b) The desire to use all the available production capacity <input type="checkbox"/> | (j) An export minded manager persuaded the company that exporting was a profitable idea <input type="checkbox"/> |
| (c) A decline in sales on the domestic market <input type="checkbox"/> | (k) An unsolicited foreign sales order <input type="checkbox"/> |
| (d) The company wanted greater sales markets <input type="checkbox"/> | (l) A foreign visit by member of top management <input type="checkbox"/> |
| (e) We felt we had a superior product that would be successful | (m) A friend/family member in a |

V21

- | | | | |
|--|--------------------------|--|--------------------------|
| in foreign markets | <input type="checkbox"/> | foreign country | <input type="checkbox"/> |
| (f) Encouragement by a local business contact | <input type="checkbox"/> | (n) Encouragement by a foreign business contact | <input type="checkbox"/> |
| (g) Encouragement by a foreign supplier of our raw materials | <input type="checkbox"/> | (o) Encouragement by a local trade association | <input type="checkbox"/> |
| (h) Government incentives | <input type="checkbox"/> | (p) We followed our major competitors to foreign markets | <input type="checkbox"/> |
| | | (q) Other | <input type="checkbox"/> |

SECTION C

23. How many more foreign markets have you added since you first started exporting?

- | | | | | | |
|--------|--------------------------|-----|------------|--------------------------|-----|
| 1 – 3 | <input type="checkbox"/> | (1) | 13 – 17 | <input type="checkbox"/> | (4) |
| 4 – 7 | <input type="checkbox"/> | (2) | 18 or more | <input type="checkbox"/> | (5) |
| 8 – 12 | <input type="checkbox"/> | (3) | | | |

V22	

24. When your company first started international business activities, you operated in:

- | | | |
|--|--------------------------|-----|
| (a) One foreign market at a time, before moving on to the next one | <input type="checkbox"/> | (1) |
| (b) Two foreign markets simultaneously | <input type="checkbox"/> | (2) |
| (c) Three foreign markets simultaneously | <input type="checkbox"/> | (3) |
| (d) Four foreign markets simultaneously | <input type="checkbox"/> | (4) |
| (e) More than 5 markets simultaneously | <input type="checkbox"/> | (5) |

V23	

25. How does the experience that you gained from one market help you enter other new markets? please rank in order of importance, 3 of the most important factors

- (a) It helps us know where to look for information about the

- new market (1)
- (b) Not at all, because the knowledge and experience gained from one market is not transferable to other markets (2)
- (c) It helps us know what types of businesses we should approach to market our product (3)
- (d) It generally helps us start on a better footing in the new markets (4)
- (e) It helps us avoid the same mistakes that we made in the previous markets (5)
- (f) Other (6)

V24

26. Our company became involved in exporting
- (a) Since the day we opened for business (1)
 - (b) Less than 5 years after business started (2)
 - (c) Less than 10 years after business started (3)
 - (d) Less than 15 years after business started (4)
 - (e) After more than 20 years since the business started (5)
 - (f) Other (6)

V25	

27. If your answer to question 25 above is NOT (a), then which of the following statements best explain your company's delayed entry into foreign markets?
(Please rank in order of importance, 3 factors which had the greatest influence .number the factors 1 to 3)

- | | |
|---|--|
| The company did not have adequate financial resources <input type="checkbox"/> | The quality of our products was not high enough to compete in foreign markets <input type="checkbox"/> |
| The company did not have the managerial skills required for International business <input type="checkbox"/> | The price of our products was not competitive <input type="checkbox"/> |
| The company did not have enough | We felt that the company |

V26

information about foreign market opportunities

needed to first have a large market share at home before going to foreign markets

The economic environment was so stable that we did not need to look to foreign markets to remain profitable

We just had a fear of the unknown

Other

28. What has been your most important source of information about foreign market opportunities?

(a) Personal sources (friends, family member, foreign contacts)

(1)

(b) Media sources (magazines, newspapers, brochures etc.)

(2)

(c) Electronic sources (Internet, television etc)

(3)

(d) Personal foreign visit

(4)

(e) Conferences and seminars

(5)

(f) Other

(6)

V27	

29. Your company's involvement in international business is through:

(a) Exports to other African countries only

(1)

(b) Exports to overseas countries only

(2)

(c) Exports to African and overseas countries

(3)

Sales from your company's own foreign manufacturing unit/subsidiary

(4)

(d) A combination of exports and sales from your company's foreign manufacturing subsidiary

(5)

(e) Other

(6)

V28	

30. For how long has your company used this method of international business?

(a) From the time we started international business

(1)

(b) Within the last 5 years only

(2)

(c) Within the last 10 years only

(3)

(d) Within the last 15 years only

(4)

(e) Within the last 20 years only

(5)

V29	

31. Our experience in each foreign market has generally followed this pattern.

(1)

- (i) Confidence
- (ii) Discouragement with low sales volumes
- (iii) Perseverance
- (iv) Turnaround of fortunes (substantially better sales)
- (v) Enthusiastic commitment
- (vi) Confidence to start searching for additional markets

(2)

- (i) Confidence
- (ii) Immediate success (high sales volumes)
- (iii) Enthusiastic Commitment
- (iv) Set up a manufacturing company in the new market

(3)

- (i) Uncertainty about new market
- (ii) Encouragement from first sales results
- (iii) Discouragement with later results
- (iv) Perseverance
- (v) No change of fortunes
- (vi) Dropped that market and looked for another one.

(4)

- (i) Uncertainty about new market
- (ii) Encouragement from first sales results
- (iii) Enthusiastic commitment
- (iv) Confidence to start searching for additional markets

V30	

(5)

None of the above patterns
(Please indicated the typical pattern your company has followed in a foreign market).

- _____
- _____
- _____
- _____
- _____

32.

What percentage of the inputs into your main export product come from foreign suppliers?

- 0% (1)
- 1 – 20% (2)
- 21 – 50% (3)

- 51 - 80 % (4)
- 81 - 100% (5)

V31	

33. If you have foreign inputs into your product, then please indicate how your foreign suppliers have helped you in developing your international business.

- | | | | | | |
|--|--------------------------|-----|--|-----|--|
| (a) Not at all | <input type="checkbox"/> | (1) | | | |
| (b) By acting as our agents in their country and other markets in which they have a presence | <input type="checkbox"/> | (2) | <table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>V32</td></tr> <tr><td> </td></tr> </table> | V32 | |
| V32 | | | | | |
| | | | | | |
| (c) By giving us information about new foreign market opportunities | <input type="checkbox"/> | (3) | | | |
| (d) By providing us with financial assistance to start exporting To new foreign markets | <input type="checkbox"/> | (4) | | | |
| (e) By training our staff on practices related to export development | <input type="checkbox"/> | (5) | | | |

34. In your company, what happens to managers who fail to meet their performance targets?

- | | | | | | |
|--|--------------------------|-----|--|-----|--|
| (a) They are reprimanded | <input type="checkbox"/> | (1) | <table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>V33</td></tr> <tr><td> </td></tr> </table> | V33 | |
| V33 | | | | | |
| | | | | | |
| (b) They are dismissed | <input type="checkbox"/> | (2) | | | |
| (c) They do not get any bonuses | <input type="checkbox"/> | (3) | | | |
| (d) They are coached and encouraged without losing their bonuses | <input type="checkbox"/> | (4) | | | |
| (e) Nothing happens to them | <input type="checkbox"/> | (5) | | | |

35. What in your opinion is your company's greatest competitive advantage in foreign markets?

- | | | | | | |
|---|--------------------------|-----|--|-----|--|
| (a) A unique product | <input type="checkbox"/> | (1) | <table border="1" style="display: inline-table; vertical-align: middle;"> <tr><td>V34</td></tr> <tr><td> </td></tr> </table> | V34 | |
| V34 | | | | | |
| | | | | | |
| (b) A fairly common product but with a very high level of quality | <input type="checkbox"/> | (2) | | | |
| (c) Offering the lowest price | <input type="checkbox"/> | (3) | | | |
| (d) Exceptionally good marketing | <input type="checkbox"/> | (4) | | | |
| (e) Some other reason (<i>Please state it</i>) | <input type="checkbox"/> | (5) | | | |

36. Please indicate by **circling one number**, the relative importance of each factor listed below, to your company's decision to go international.

- (a) The **cost** of doing international business.

V35

- Not at all important 1 2 3 4 5 6 7 Very Important
- (b) The modernness of the **technology** used in your company.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (c) The availability of **government** export promotion initiatives.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (d) The conditions prevailing on the **domestic market** environment.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (e) Specific factors related to your **Industry**.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (f) The ease of access to **information** about foreign markets.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (g) Senior **management's attitude** to international business.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (h) The company's general business **culture**.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (i) The company's **resources** (Human resources and financial resources)
 Not at all important 1 2 3 4 5 6 7 Very Important
- (j) The company's overall **business strategy**.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (k) The existence of random or **chance events** that have created foreign business opportunities.
 Not at all important 1 2 3 4 5 6 7 Very Important
- (l) The existence of **partnerships or alliances** with foreign business entities.
 Not at all important 1 2 3 4 5 6 7 Very Important

V36	
V37	
V38	
V39	
V40	
V41	
V42	
V43	
V44	
V45	
V46	

Thank you very much for your time and contribution to this study on International business practice and theory.