How SMEs engage in the global economy – cases from New Zealand

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ABSTRACT

The paper reports the finding of a large-scale innovative cross-sectoral study that looked at all the exporters within a single region of New Zealand. The aim of the research was to identify the obstacles facing Small- and Medium-sized Enterprises (SMEs) who are exporters, and how these obstacles are overcome. The research methodology utilised a postal survey, face-to-face interviews and triangulation of data with other sources such as national statistics. In addition, the examination of an entire geographical region was an innovation, allowing as it did for control of common factors (such as distance to market) and identification of industry- and company-specific factors in the primary, secondary and service sectors which were represented in the group of exporters.

The value of this research is its in-depth exploration of internationalisation practices adding depth to pre-existing knowledge, studies and research in the majority obtained by quantitative methods.

The findings show how successful exporters build their own internationalisation strategies through the creative use of every possible avenue including entrepreneurial intuition and access to networks to overcome their sometimes severe resource constraints. The barriers toward internationalisation need to be dealt with at a strategic level in order to realise business opportunities in foreign markets.

Keywords
Export, export barriers, internationalisation strategy, international market development, SMEs

INTRODUCTION

As a small nation with a population that reached 4 million in 2004, New Zealand has a relatively small domestic market. Coupled with its commitment to free trade and its opening from the mid-1980s of this same domestic market to foreign competition - including foreign direct investment (FDI) – New Zealand companies of all sizes face severe competition both domestically and overseas.

With none of the benefits enjoyed by protectionist measures especially in the agricultural sectors of the US, EU and Japan, some New Zealand companies have survived without any form of direct or indirect government subsidy for over two decades. This has made them 'lean' in terms of their business operations but still open to the global effect of the 'China price' which is typically a quarter of the cost of manufacturing in New Zealand. It has also made them seek out overseas opportunities wherever they may arise.

The New Zealand economy relies on the success of its SMEs (Akoorie & Scott-Kennel, 2005) as these constitute up to 90.7% of all firms and provide about 50% of New Zealanders (Statistics New Zealand, 2005) with work and income (Ministry of Economic Development, 2004).

The purpose of this cross-sectoral study was to find out how New Zealand SMEs go about achieving successful internationalisation. Although much is known of the Multi-National Corporations (MNCs) such as New Zealand's largest company the milk co-operative Fonterra, as well as other well known players such as Zespri who export Kiwifruit, much less is known about the smaller companies and their routes to overseas markets.

A 2002 report initiated by the New Zealand Treasury identified the two major constraints for growth in New Zealand: the distant geographic location from international markets (the 'tyranny of distance' argument) and the difficulty in raising sufficient capital from the very small domestic stock market or banks (which are now foreign-owned with the exception of the newly formed Kiwibank and the regional PSIS bank) (Simmons, 2002). These size and distance arguments have been repeated in a recent report by the business-backed New Zealand Institute (Skilling & Boven, 2006).

It is widely accepted that those companies who have access to international markets can more rapidly attain growth and long-term profitability. For this and other reasons, export market development and the internationalisation of the firm have long been areas of interest in business research.

Bilkey (1978), Miesenbrock (1988), Aaby & Slater (1989) investigated exporting activities.

Studies of the internationalisation process were undertaken by Andersen (1993), Boter & Holmquist, (1996), Leonidou & Katsikeas (1996), and Coviello & McAuley (1999).

Cavusgil & Nevin (1981), Miesenbrock (1988), Johanson and Vahlne (1977, 1999), Czinkota and Ronkainen (1994), Bilkey and Tesar (1977), and Coviello and Munro (1997) added to the wealth of knowledge in this area.

MODELS OF INTERNATIONALISATION

An evolution of ideas

The last thirty years have seen an evolution of ideas about exporting and internationalisation. Much of this work has been based on quantitative studies (beloved of economists) rather than qualitative studies (beloved of social scientists and historians). The present study brings both approaches together in order to arrive at a new understanding and move the debate to its next stage, which accurately reflects the common characteristics and individual differences of exporters rather than making grand generalisations which break down when the particular is studied.

Incremental or stages model

The first model of business internationalisation, known as the *'incremental'* approach to internationalisation or the 'Uppsala model' was developed by Johanson & Vahlne (1977) following a study of Swedish export companies. The model describes how companies move from an initial stage of direct exporting, through intermediate stages such as establishing a representative office or appointing an in-country agent, through manufacturing in the foreign market to the final stages of collaboration, joint ventures and strategic alliances. These stages reflect the increasing knowledge and commitment to foreign operations over time. Other researchers have supported the incremental concept (Bilkey & Tesar, 1977, Cavusgil, 1984, Czinkota, 1982, Johanson & Vahlne, 1999, Reid, 1983).

A well-known summary comparing the various stage models by Leonidou & Katsikeas (1996) was updated and modified by Crick et al. (2001). Anderson (1993) and Thomas & Araujo (1985) among others have suggested that the incremental approach is the result of adopting innovative behaviour through exposure to foreign markets which then shapes and reinforces the perceptions and beliefs of managers in a form of feedback loop.

The concept of '*psychic distance*' (Gruber, Menta, & Vernon, 1967, Hallen & Wiedersheim-Paul, 1999, Johanson & Wiedersheim-Paul, 1999) explains the tendency of firms to preferential trading with companies from a similar cultural background such as New Zealand companies finding it easier to deal with British companies than the much closer Chinese market. Obviously, 'likeness' facilitates the ease of communication between business partners (Johanson & Wiedersheim-Paul, 1999) drawing on commonalities such as language, culture, political system, equal level of economic development, infrastructure, and level of education. In a situation of close psychic distance the speed of managerial learning, crucial for the internationalisation process, appears to accelerate, as more is 'given' or commonly understood between the parties.

Born Globals

The incremental approach now faces a new form of business – that of the 'Born Globals', which are companies which from their inception aim at overseas markets, and consider the domestic market to be just one more market among many. This fairly recent phenomenon which arose with the dot-com companies of the 1980s, and which now has increasing numbers of companies within its ranks has challenged the validity of the stage concept as an explanatory basis for export activity (Knight & Cavusgil, 1996, Moen & Servais, 2002). Born Globals develop a multiplicity of markets simultaneously using entrepreneurial and pro-active strategies to exploit international opportunities with their ability to respond rapidly (Shaw & Darroch, 2004). They are typically companies which utilise the opportunities presented by advances in information technology (IT) telecommunications, such as broadband for rapid data transfer. A typical example would be the call centres of Bangalore in India which see the world as their potential market.

Network model

In comparison to both the incremental approach and the Born Globals, are the *'Network Models'* where other scholars have found that the internationalisation process is determined by the set of relationships a company develops as a part of a larger network system (Axelsson & Easton, 1992, Bell, 1995, Coviello & Munro, 1997, Johanson & Vahlne, 1992, Knight & Cavusgil, 1996). Particularly when companies start the internationalisation process, they rely on timely, cost effective and trustworthy information to select suitable markets and identify adequate market entry strategies. As a member of a supportive network - such as an industry association - they might receive guidance from more experienced partners, which will minimise the risk of international failure. Johanson & Mattsson (1988) suggest that a company's success in entering new international markets is more dependent on good access to well functioning networks and relationships than on close 'psychic distance' or similar cultural factors. Obviously, building effective networks and relationships is a gradual process and takes time. In this way it supports, rather than replaces, the claims of the incremental model (Johanson & Vahlne, 1992). However, the network perspective goes further than the models of incremental internationalisation by suggesting that a company's strategy emerges as a pattern of behaviour influenced by a variety of network relationships which fall outside the incremental stages.

The contingency model

A further mode of internationalisation can be seen in the *'contingency'* and the *'resource-based'* approach. The pace of globalisation today prevents many companies from following the slow incremental approach (Bell, 1995, Young, 1989) and consequently the universal applicability of the incremental model has been questioned (Andersen, 1993, Nordstrom, 1991, Vahlne & Nordstrom, 1992).

Companies marketing niche products seem to start international activities at an early stage, arguably due to the limitations of the domestic markets (Litvak, 1990). This phenomenon might have a different basis however: a niche product is deliberately chosen for its global market potential and becomes the means to implement internationalization. The *'contingency'* approach (Robertson & Chetty, 2000) is based on the principle that the company's international development is *contingent* upon a wide range of market- or company-specific factors. Some firms may decide to use strategic means such as acquisitions, relocation of production to cheaper countries, alliances and mergers when the occasion occurs (Barkema & Vermeulen, 1998). Opportunities may cause companies to leapfrog stages or enter markets that are high in psychic distance.

The resource-based model

In response to developments in the global environment, more complex forms of international market behaviour have evolved. Contemporary *resource-based* studies concentrate on the behaviour of large enterprises (LEs) and multi national companies (MNCs) (Dhanaraj & Beamish, 2003, Tallman & Fladmoe-Lindquist, 2002). There are still many questions concerning the applicability of this theoretical model in regard to smaller firms or SMEs without the same levels of available resource. Companies in New Zealand are more likely to feature the absence of sufficient resources than their presence. Crick & Spence (2005) investigated how small firms deal with resource shortcomings while still being able to develop internationally by using entrepreneurial spirit and *'serendipity'*; however they also call for further investigation of this topic. This now has been the aim of this present study.

THE RESEARCH STUDY

The present cross-sectoral study was based on the results of both a quantitative and a qualitative inquiry involving in-depth interviews with 50 New Zealand exporters in early 2005. It developed out of the shortcomings of a 2004 mail survey which investigated the export barriers for 180 exporting companies in New Zealand's Manawatu region. 54 companies (30% of the total) responded to the questionnaires. The survey data obtained was subjected to a quantitative analysis and provided an overview of the range and volume of exporting businesses in the region and additional business background information. The question "*How do you identify your potential markets*? was answered by one exporter with the words *"By eye sight!*" prompting the progression to the qualitative investigation presented here. The endeavour was to explore the meaning of ambiguous and intriguing responses from the survey. A follow-up of the same survey population also presented an opportunity to triangulate the results and improved the significance, reliability and overall quality of the study as recommended by Jick (1979) and Marchan-Piekkari & Welch (2004).

Online searches for company information, such as the national register held by Companies Office, company web-sites or homepages, local newspaper articles and the '*local knowledge*' of colleagues completed the preparations for the interviews. The initial contacts with the exporters were made by telephone rather than letter, during which the purpose of the follow-up interview was explained as well as the consent sought for the intended audio-taping of the interviews. The average duration of the interviews – which were conducted face-to-face and on company premises - was about 60 minutes, the shortest being fifteen minutes and the longest was more than two-and-a-half hours. As promised, commercially sensitive information was kept confidential and data-pooling masked the individual identities making it possible for interviewer and interviewees to approach the meetings openly and in '*good faith'.* Easily established rapport facilitated the flow of communication, particularly as the interviewer was able to make reference to the earlier postal survey responses.

The participants were generally very supportive of this study and offered generously of their time and input. The practice of making the original survey sheet available during the appointment provided opportunity for the participants to once again read their responses and comments before being interviewed. Seeing their own hand-writing they knew that their responses had not disappeared into the great black hole of research inputs, and that the time and effort spent in filling out the questionnaires was greatly appreciated. It also helped to build credibility and trust. Many of the exporters mentioned that a practice of no or poor feedback had led to a general decline of supporting surveys. Interviewees also liked being visited 'on site', with one exporter remarking that *"So far no researcher or any representative of any business development agency has ever taken the trouble to come out and see us on our premises".*

Many company owners proudly offered to show their premises and production sites. Inspection of company locations offers a general insight into businesses and adds useful information for a researcher. Two of the interviews were conducted over the telephone as the persons involved were not available otherwise. The interviewer found that data gathering by telephone was less satisfactory than a face-to-face interview because seeing a person while asking questions and observing their facial expression and other non-verbal behaviour (NVC) proves invaluable. It also allows an interviewer to establish rapport quickly and to pick up on non-verbal cues that are important as part of the communication process and understanding and verifying the information. The analysis of the data was conducted following a modified 'Grounded Theory' approach (Glaser, 1978, Glaser & Strauss, 1967).

The limitations of the methodology are readily apparent. Obviously, the results through the participant selection are confined to one particular New Zealand situation. Only 50 companies from the Manawatu region were involved in the interviews and the outcome might be different for the two major economic centres in Auckland and Wellington. Further larger-scale studies targeting urban-based exporters would provide valuable insights. Additionally, taking strength from the results of Baker's & Nelson's recent US-based study (Baker & Nelson, 2005) the extension into a cross-cultural setting would definitely provide vigour to the findings here.

However, the strengths of the methodology are in its mix of both quantitative and qualitative approaches, its triangulation of data and its ability to control for location-specific factors through a study that encompassed all sectors, rather than other studies which have focussed on a single industry.

MAJOR FINDINGS AND DISCUSSION

The purpose of this research was to understand how New Zealand SME exporters deal with exporting barriers and resource constraints and how they still manage to internationalise successfully. Neither the '*stages*' model of internationalisation including the concept of '*psychic*' distance, nor the '*resource model*', nor the '*contingency*' approach can fully explain the observed practices of exporters. For New Zealand SMEs these are best described as a '*bricolage'* or *'Number Eight wire'* approach (Number Eight fencing wire was the material that could be used for a variety of purposes - apart from its original intended one – and was therefore invaluable in the early colonial days when supplies were not available and settlers had to 'make do' with whatever was available).

The academic concept of '*bricolage'* was first introduced by Lévi-Strauss (1969), and has as its basic concept the idea of a handyman who makes do with whatever is to hand and includes the important element of the ability to invent one's own tools rather than rely on standard ones. This same ability also applies to New Zealand SMEs: in order to develop a competitive international market they use whatever tools, materials or avenues happen to be available to construct their own strategy for internationalisation.

The findings of the present study are also in line with the results of a recently published study by Baker & Nelson (2005) who investigated entrepreneurial processes by which small firms in the USA manage to develop and grow in spite of severe resource constraints.

In order to be able to find commonalities regardless of products, the intention of this study was to look across the three economic sectors: (1) the primary sector (such as agricultural products, meat production, wool and hides); (2) the secondary sector (from manufacturing of heavy machinery and agricultural tools to highly sophisticated injection pumps and electronic scales) and (3) the tertiary sector (IT services, and various consulting services).

The researched companies differed vastly in terms of size, turnover, products and services; however, they have several characteristics in common:

The SMEs have generally only one person per company who is in charge of strategic decision making and that includes decisions about exporting or internationalisation. This person - usually the business owner or manager - accumulates product knowledge, technical skills, business experience, and the necessary information about international markets and, last but not least, has to have a desire to export. The more he/she knows about a target market (the 'psychic distance'), the less risky, the less costly and the smoother will be the realisation of their plans.

How do the exporters find adequate information and how do they use it for their export practices? Obviously, formal education helps; however, perhaps surprisingly, few of the New Zealand managers interviewed held university degrees in business, accountancy or economics. The exporters who did, seem to apply the principles they have learned and design their strategies according to text book knowledge. However, many successful exporters have no formal business qualifications whatsoever. Over the years they managed to learn the "*tricks of the trade"* through practice, exposure, experience, reflection, and advice from others. They embrace new technology and access internet and newspapers frequently as a means of cheap, efficient, fast and convenient information gathering.

Many also use special business information websites maintained by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) or various economic development agencies. However, search engines like "Google" or "Yahoo" seem to be the most utilized sources of information. Here the case mentioned earlier: "*How do you identify your potential markets*?"… "*By eye sight*": was of an exporter who uses the Internet intensively, reads and collects a lot of printed material and publications which he thinks could become useful. Eventually he developed a '*feel*' for what is going on internationally in his product range. Being aware of his company's capabilities as well as its limitations, he is able to identify business opportunities world wide. Moreover, he involves his international staff in the development of innovative products for niche markets. His staff bring in their specific knowledge about their home countries. Additionally, he has created an informal network with former customers who act for him as overseas marketing and distribution agents.

Government support organisations, such as '*overseas trade development organisations*', which are available but perceived by many exporters as too costly and to be of no great help because they do not have the detailed knowledge to match up the products with customers or suitable distributors. Many SMEs reported that they can neither afford nor rely on them as good information sources concerning market development decisions.

'*Decision making*' in general seems to be individualistic, spontaneous and hardly systematic. Most exporters know that they need to find a '*compatible buyer*' who matches the size and volume, specifications and quality level of their export units. Exporters need to communicate effectively the features of their products which can range from generic or standardised to highly specialised or custom-made. Modern technology for optimising communication with customers - such as text messaging, mobile 'phones with the facility of sending electronic pictures of products to potential buyers - is vital to negotiate and achieve an agreement on price and quality before shipment. *"If you are in the business of exporting fresh produce, there is only so much that you can do to a product: a potato or an onion. The challenge is to deliver them fresh, in good shape and on time."*

Many understand that they can sell only certain qualities to certain markets: *"When we had the flooding last year we could not sell our product [squash] to our normal customers in Japan. The quality was not as good as usual and we did not even try to sell it to Japan. We had to find another market somewhere else, quickly; obviously we had to lower our price."*

Intellectual Property (IP) rights are an issue while investigating suitable markets: "*We will not sell our product to China or any Asian country. Their cultures do not respect our intellectual property and sooner than later our product will be copied and offered for a much lower price. We are lucky we found a compatible US company which is producing our product as add-on to their products. A strong legal contract will protect our rights."*

Protection of IP is also a concern for companies offering service products internationally: *"We stopped offering our services to Singapore. We had such a hard time getting paid for our work. Their culture is not conducive to pay for advice and consulting services. They do not think consultation is something that you have to pay for."*

Successful exporters believe in market development which is suitable to their products, involve one or more international markets, with appropriate distribution channels. They target these international markets according to their personal preferences and what they think is right for their products. This does not necessarily follow the theory of psychic distance: "*I wanted to go to Japan. This country and its culture always fascinated me. So I took some lessons to learn the Japanese language. I decided then on a product which I liked and which was suitable for the Japanese market and which would allow me to travel there on a regular basis. I never sold my products here in New Zealand domestically."*

Not only IT businesses are becoming 'born globals'. One manufacturing company was set up to target the world market from the start. The company owner, a professional marketer with a good portion of entrepreneurial spirit, planned his global strategy by designing a standardised product which would attract customers worldwide. His marketing strategy targets the global niche market for cricket and hockey sports gear and equipment. As his company designs, manufactures, and operates from a small rural New Zealand town to customers all over the world, he has to be quite imaginative to overcome the obvious constraints of finance, human resources and logistics. In a combination of good distributor networks and a highly sophisticated and well maintained website, he was able to develop his international markets. He is now leader in his international niche market: "W*e are exporting to at least 42 countries, too many to list."*

FROM EXPORT BARRIERS TO EXPORT STRATEGIES

The distinction of export barriers into 'internal' and 'external' barriers has dominated the literature for many years. However, another way of looking at barriers to export and internationalisation might make sense in regard to their location of origin. This means firm characteristics, assets and capabilities in regards to management, production, resources, and access to networks, as well as global environmental factors composed of the domestic and target market environment, harbour barriers and might act as constraints toward internationalisation.

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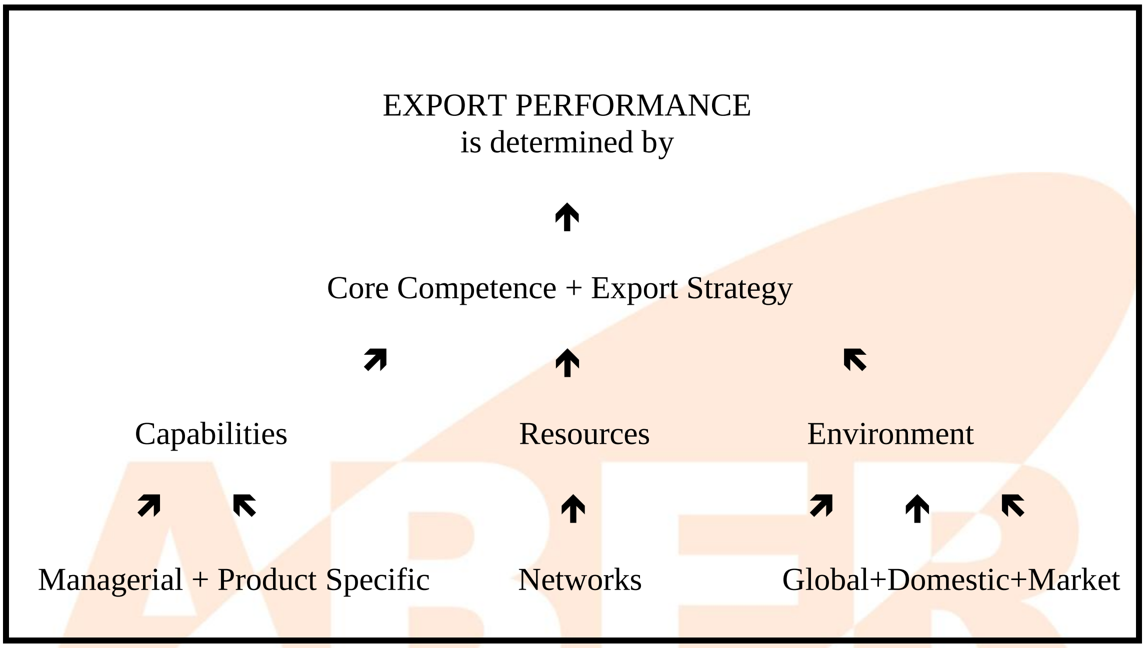
To illustrate this statement, it is useful to consider the biggest hurdle towards internationalisation which was identified in the study: management unwilling to undertake international ventures or as one exporter put it "*The biggest barrier is between the ears*".

In contrast, managers who are deeply committed to export and internationalisation will overcome most other barriers even in situations of severe resource constraints. In order to condense the results obtained from this qualitative study and bring them to a more abstract level the Aaby & Slater (1989) framework has been modified to provide an illustrative model.

Figure 1: Bricolage model



Managerial capabilities and access to suitable networks were found to be the two most important factors in this study for achieving good export performance and success in internationalisation. However, every single item in regard to the positions above should be evaluated for its potential positive contribution toward a successful export strategy.

Successful exporters in this study used every possible resource available to construct a 'Number Eight-wire' homemade export strategy around their core competencies. This 'number-eight-wire mentality' describes the New Zealand national characteristic (and virtue) of using a cheap and readily available material (thin and bendable wire, number '8' in strength) to build or repair anything and everything.

Furthermore, markets and available production should match in quantity and quality. This is crucial for small firms with little means to control international demand. Experienced exporters know where they can sell their products and where they should not even try. Markets with lack of purchasing power for high priced / high value products, and markets that are too small with insufficient demand for unsuitable products prove to be costly exercises. Having a higher demand situation than the production capacity permits can create problems such as a '*gusher*' or allows competitors to enter the scene with '*counterfeits*'. "*One cannot sell products to China, it does not make economic sense; they can produce it there ten times cheaper"*.

Inappropriate distribution channels are serious threats to small businesses: *"The containers with my fresh lettuce were left sitting there in the sun on the tarmac in the airport in Japan for 24 hours. Can you imagine what lettuce looks like after that? It was all gone!"*

Access to appropriate and efficient networks therefore has been reported as vital for achieving export performance. Successful exporters know the strengths and weaknesses of their business, their core competencies, the volumes they are able to produce, the costs of production, and their market positioning. They also have to know the limit of their resources. In spite of consulting on a regular basis with business friends, staff, and network members, however, they tend to make export decisions fast and independently and can implement these decisions quickly which is their competitive advantage over larger companies that have greater resources available.

CONCLUSION

Export companies in New Zealand's Manawatu region, because of their financial, time, and resource constraints, have to combine available resources, networks and their entrepreneurial '*sixth sense*' in an effort to realise business opportunities in today's complex world markets.

Rather than following a formal textbook strategy or plan they use 'serendipity' (Crick & Spence, 2005). Neither the 'stages model' of internationalisation including 'psychic distance', nor the 'resource model' or 'contingency approach' can adequately explain the observed methods of internationalisation which are best described as what Lévi-Strauss (1969) called a '*bricolage*' approach of 'making-do' with what is available and creating one's own tools.

Reflecting on the observed practices small firms seem to use any path or means on hand to construct their own paths to internationalisation. This is true for companies across all three economic sectors regardless of product or industry. New Zealand's holistic way balances resources, staff, products, finance, geographic distance, logistics, personal preferences, 'number-eight-wire mentality', environment, and lifestyle choices (the three B's of 'Bach (beach house), Beemer (BMW) and Boat'). Therefore, in order to seize a chance to develop a world market, in spite of severe resource-constraints, exporters use every single strong point available to them to construct individual internationalisation strategies.

Further research selecting firms from other New Zealand regions and the main urban centres would provide valuable insights and might reduce the limitations of this study. The results of Baker's and Nelson's US-based study (Baker & Nelson, 2005) suggest a strong case for extending the research into a cross-cultural setting to allow comparative studies to identify similarities and differences across countries.

The authors therefore welcome the opportunity to engage with colleagues and can be reached at their respective institutions.

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