

*Part III*

# Operations

The operational issues of internationalization among smaller manufacturing firms are explored here. The main questions are concerned with what motivates managers to make the internationalization decision and begin to operate internationally.

## *Chapter 8*

# **Start of International Operations**

For managers of smaller manufacturing enterprises, exporting is only one way to enter a foreign market and, in general, the most frequent method of approaching internationalization. Other ways for smaller manufacturing enterprises to enter foreign markets are to invest directly in the foreign market, to sign contracts with various entities in foreign markets as a way of combining or exchanging services, or to develop aggressive export activities. In this study, we focused on exporting as the basis for the decision to internationalize.

In deciding to export, managers of smaller manufacturing enterprises consider various factors. They weigh the consequences of such a decision on their operational goals, and examine their strengths and weaknesses in order to determine their potential in foreign markets. They assess their ability to compete and, formally or informally, start planning for the decision to enter a foreign market. A few managers also question whether or not they need a fixed policy regarding export opportunities or a formal structure to evaluate them. In reality, only a small number of managers decide to export based on the above factors. The decision to export tends to be more reactive and opportunistic rather than proactive and rational.

Some managers suggest they need to overcome certain obstacles to exporting. Such obstacles may be typically classified as marketing or financial barriers. However, in the overall context of exporting or internationalization, these obstacles play a minor role in a manager's decision to export. Managers of smaller enterprises also suggest that the decision to export is made based on their strengths and the advantages they perceive as helping them be competitive in their

domestic market. However, the perceived strengths and advantages, such as having a unique product of high quality and competitive pricing, may not necessarily be realistic in a highly competitive international marketplace. It appears that, in deciding to enter foreign markets by exporting, managers tend not to emphasize the importance of perceived obstacles and they lose sight of their strengths and weaknesses because they lack sufficient marketing and financial information about foreign markets.

Among the smaller manufacturing enterprises in our study, the actual decision to export was made as a function of managerial style. Some managers made the decision to export systematically by examining all of their foreign market entry options; others did not. It was expected that not all managerial types in this study approached the export decision systematically; that is, they examined all of the factors, considered their strengths and weaknesses, evaluated the obstacles to exporting, and then made a decision. The fundamental issue seems to be this: how many rational managers made that decision formally, documented the decision by developing policies and structures to support future decisions, and communicated the entire process to others within the enterprise? How many rational managers simply made the export decision based only on their perceptions and experiences, and did not document the decision or discuss it with others? The same questions apply to craftsman and promoter managers. It is conceivable that some craftsman and promoter managers made the export decision in a systematic way, but most did not.

## **Final Decision to Export**

The findings from this study suggest that the decision to export — or to internationalize — is made on the basis of how individual managers respond to situations in which they confront export opportunities or are competitively challenged to enter foreign markets. The findings also suggest that four situations cause all types of managers to arrive at an export decision. The first situation is when the decision to export is made systematically by exploring available options. The second situation is when the export decision is made

because an unsolicited order is received from a potential customer in a foreign market, and the manager decides to ship the order. In the third situation, the export decision is made opportunistically. Managers obtain information from reliable external or internal sources about potential export orders that favorably coincide with internal events within their enterprise. These are typically one-time opportunities. In the final situation, the export decision is made based on exclusive information. Managers receive exclusive information from reliable sources that may be within or outside the organization. Internal sources may be sales persons, technical support specialists, or even engineers who are in close contact with their customers. External sources may include bankers, consultants, and attorneys. The managers must then decide whether or not to act on such information.

The first situation, systematic exploration of foreign market opportunities, requires that managers proactively or reactively examine all options and make a decision to export. A proactive decision to export may suggest that managers perceive inherent strengths in their enterprise to export successfully. A reactive decision to export may imply that the managers must consider some competitive challenges. If the first export experience is positive and if managers believe that their enterprise benefited from it, it is probable that a fixed policy regarding exports and a formal structure to evaluate export opportunities will be established. More mature smaller manufacturing enterprises have followed this pattern.

Unsolicited orders present a major dilemma for managers of smaller manufacturing enterprises. They can fill them or they can ignore them. Some managers decide to fill unsolicited export orders. If the first unsolicited export experience is successful, a manager may decide to accept other orders, thus requiring expansion and managerial changes to incorporate exporting into routine operations. If the first experience is not successful, managers may decide not to accept any future unsolicited export orders under any condition. Often, managers of smaller manufacturing enterprises do not know and do not attempt to find out the sources of unsolicited orders. The unsolicited orders may result from an advertisement in a trade journal, a

product release announcement, attendance at a trade fair, or the enterprise's exposure through other media events.

Export decisions based on serendipitous export opportunities are often conveniently implemented if, when these opportunities materialize or are solicited, enterprises face lower sales volume, loss of market share, or unforeseen overproduction. Overproduction combined with high inventory levels can be the driving force for opportunistic exports. Managers of smaller manufacturing enterprises explore leads provided by governmental agencies, industry associations, and any other available sources of information that may generate opportunities to export until problems of overproduction or high inventory are solved. In the future, when similar problems emerge, managers of smaller manufacturing enterprises may look for additional opportunistic export orders.

Finally, export decisions made by managers on the basis of exclusive information reflect the risk propensities of various types of managers to make commitments to foreign markets and customers. Decisions made on the basis of exclusive information suggest that some individuals or entities are creditable and have information that virtually guarantees successful sales. Managers who make their decisions based on exclusive information tend to evaluate the credibility of the source first and the validity of the order second. Some managers maintain a network of associates, suppliers, and customers who they believe will supply them with exclusive information concerning potential export orders.

## **First Orders**

There are additional considerations regarding the first export order, regardless of the basis on which the decision to export is made. If managers seek their first export orders systematically, they will search rather aggressively and eventually become proactive in searching both domestic and foreign markets for export opportunities. They will utilize governmental services to assist them in identifying export clients, distributors, and markets. They will join supply chains, and bid regularly on advertised and publicized export opportunities.

When first export orders are received but unsolicited, managers may have problems responding to them. Since such enterprises seldom have formal procedures to handle export orders, especially unsolicited orders, managers need to decide how to respond. Managers of smaller enterprises seldom question the orders themselves, but they do often question the motivation behind them. They begin to question why their enterprise was selected and who selected them rather than the size of the order or its importance to the enterprise. Most managers who are satisfied with the answers to their questions about the circumstances of unsolicited orders will fill them. However, if managers perceive uncertainties and risks associated with unsolicited orders, they will not fill them. Unfortunately, since the mid-1980s and with the greater exposure of smaller manufacturing enterprises on the Internet, most first orders are unsolicited.

First opportunistic export orders typically receive relatively low commitment from managers. Managers of smaller manufacturing enterprises tend to believe that opportunistic orders, in general, involve relatively low risk and represent only random export opportunities because these opportunities are frequently promoted by governmental agencies or passed on by domestic customers. Some managers successfully respond to first opportunistic orders and develop them into ongoing relationships. Managers also point out that tracking and obtaining opportunistic orders requires networks of professional contacts and relationships in both the public and private sectors. Most craftsman managers are not willing to invest their time into these activities; promoter managers are more likely to do so, and rational managers consider such activities to be a part of their managerial responsibilities.

Exclusive information provided by a reliable source is another way of receiving export orders. First export orders received on the basis of exclusive information provided by a reliable source are favorably accepted by most managers of more mature smaller manufacturing enterprises. A few managers tend to perceive such first orders to be important to their business. Since most orders based on exclusive information are typically conveyed by an individual known to both entities, the resulting seller-buyer relationship may lead to a long-term

positive relationship. As a result, first orders based on exclusive information tend to be expedited more diligently than other first export orders, excepting only aggressively solicited first orders.

### **Solicited and Unsolicited First Orders**

The three surveys conducted in this study illustrate that managers of smaller manufacturing enterprises base their export decision on systematic solicitation of export orders, unsolicited first export orders, export orders opportunistically received, or information received exclusively from reliable sources. However, a large majority of smaller manufacturing enterprises internationalized their operations by initiating exporting without systematically exploring any potential export opportunities. In the mid-1970s, less than one-third of the enterprises systematically explored opportunities to export. In the mid-1980s and 1990s, the number of enterprises that systematically explored export opportunities increased significantly but still represented less than half of the exporting enterprises in this study. These findings indicate that managers are reluctant to organize a systematic way for exploring export opportunities; they would rather wait until such opportunities materialize.

The significant increase in the number of smaller manufacturing enterprises that systematically explored export opportunities in the mid-1980s and 1990s is due to the intensified domestic and international competition and the loss of domestic market share. Had competitive and market conditions remained as they were in the mid-1970s, it is likely that the increase would not have occurred. Information gleaned from later interviews with managers who had survived for 35 years or more suggested that managers consider a systematic assessment of all foreign market entry strategies to be a necessary part of their ongoing internationalization process.

Similar conclusions can be reached about solicited versus unsolicited first export orders. The results of the three surveys are similar but less dramatic. Over the years, the first export order has been unsolicited for a majority of the smaller manufacturing enterprises. Approximately two-thirds of these enterprises started exporting because they received

unsolicited orders, whereas only one-third of such enterprises actively sought their first order. Managers had to decide whether or not to fill the unsolicited orders, a choice that usually resulted in the internationalization process. During the time period covered by the three surveys, the number of enterprises that sought their first order increased slightly in the mid-1980s and decreased in the mid-1990s. When researchers examined the findings from the last 35 years, they concluded that the majority of smaller manufacturing enterprises did not seek their first order. Instead, they began their internationalization process of exporting due to forces external to the enterprise.

It is important to compare the three surveys' findings with information gathered from pre- and post-study interviews with the managers. The pre-study interviews were designed to collect information about factors used in the research document. The post-study interviews were held with the managers who responded to all three surveys and who were still operating these enterprises and had survived more than 35 years of internal and external challenges to internationalization.

Previous studies have suggested that there are two general perspectives on the export decision and, consequently, on the first export order. The first perspective focuses on the experiential or learning process by managers of smaller manufacturing enterprises, and is sometimes referred to as the *stage model*. Smaller manufacturing enterprises receive their first export orders, fill them, and learn from that process. The managers acquire knowledge about export markets and commit increasingly more resources to them. As the export activities increase and new export markets are added, managers become more comfortable in their decision-making skills and they become more proactive in the international marketplace. The stage model, however, is one-dimensional when it comes to the broad concept of the internationalization of smaller manufacturing enterprises. The stage model was appropriate for smaller manufacturing enterprises in the mid-1970s and, perhaps, in the mid-1980s; but it became less relevant in the late 1980s and 1990s, after smaller manufacturing enterprises accepted the use of the Internet as a way to distribute their products.

The stage model perspective on internationalization became less relevant because demand for products in both domestic and foreign markets changed and foreign competition intensified at home and abroad. Products lost their competitive edge. More significant to this change in the market was the introduction of the Internet, which gained wide acceptance from the late 1980s onwards. The Internet had a major impact on just about every smaller manufacturing enterprise. For example, the enterprises developed webpages to better communicate with clients and suppliers. They also developed internal networks to better communicate with employees and to more effectively coordinate commercial activities. The literature suggests that this perspective on internationalization is known as the *born global* perspective.

Although this perspective may be significant for many smaller manufacturing enterprises, it appears that the notion of “born global” mostly describes smaller, cutting-edge, high-technology software and computer manufacturers that began to emerge at the dawn of the information technology age — mostly after the mid-1980s. Many of these smaller high-technology enterprises invented and introduced new technologies being sought after by information technology innovators and early adopters. Examples of this pent-up demand were software developers. When they announced a release day for new software, orders would arrive over the Internet a few seconds past midnight on the release day itself.

Once managers presented their smaller manufacturing enterprises to the world via the Internet, they began receiving product inquiries, offers to merge, contacts from venture capitalists looking for investment opportunities, and attempts by large international enterprises for friendly (or sometimes unfriendly) takeovers. These situations became valuable learning experiences for a majority of the managers of smaller manufacturing enterprises. On the output side, they had to process market opportunities; on the input side, they had to deal with alternate suppliers; and internally, they had to be concerned about the potential knowledge drain — competitors trying to hire their employees. At the same time, the more successful smaller manufacturing enterprises were in danger of being acquired, taken over, or purchased

and liquidated by their competition. The early stages of information technology placed tremendous pressure on smaller manufacturing enterprises from both domestic and foreign sources. Those enterprises that were able to adjust became much stronger and better focused both domestically and internationally.

According to managers of smaller manufacturing enterprises, all of the developments since the late 1980s have offered new options for internationalization. They now have more choices — export their products, license their know-how, merge, or find other means of entering foreign markets on their own or in partnership with domestic or foreign partners. The process of internationalization has become a multiple-decision process based on a portfolio of foreign market entry options. Depending on local market and competitive conditions, smaller manufacturing enterprises can enter several markets simultaneously using different modes of entry. Today, managers of smaller manufacturing enterprises consider the foreign market entry portfolio as a standard approach when making decisions to internationalize their operations.

## **Information Needs**

To be successful in implementing the first export order or using the portfolio approach to internationalize, smaller manufacturing enterprises need information. The degree to which they need this information has not changed significantly over the past 35 years. During pre-study interviews, managers of smaller manufacturing enterprises suggested that certain information would be useful in helping them make the initial export decision. Managers were interested in information concerning the actual export process, including export financing and shipping. They were also interested in marketing information such as market share potential, product pricing, product design, and packaging for foreign markets. Managers were also concerned about domestic and foreign competition, economic and political conditions in foreign markets, and export quotas and tariffs. They judged such information to be useful but not essential in making their first export decision.

The most important information for internationalization initially identified by managers was about consumers, economic conditions in foreign markets, market sales potential, product pricing and design, export shipping, and foreign competition. Questions about these sources of information were included in the three surveys, and only managers who exported responded to the three surveys. The responses were consistent for all three surveys.

A minority of managers who exported in the mid-1970s indicated that they found information about their potential market sales useful. This response was followed by information about pricing, and information about economic conditions in foreign markets. A small minority also indicated that information about shipping exports to consumers was useful. During that time period, managers who found these types of information useful were typically less experienced with export operations than were other managers in the study.

Information became more important in the mid-1980s, when more managers started exporting and realized that they needed more information to export products. Still, only a minority of exporting managers indicated that they could benefit from additional information. They continued to be concerned primarily over market sales potential and product pricing information; a concern for foreign competition and economic conditions in foreign markets followed closely behind. Information about product design also began to be an issue. Managers at this time were more knowledgeable about export operations, and they realized that they needed more specific information.

By the mid-1990s, information needs had changed again. A slightly larger minority of smaller manufacturing enterprise managers now indicated that product pricing information was useful to them, followed by information concerning the potential of market sales. Information about foreign competition, economic conditions in foreign markets, and export shipping was also considered useful. Although the information considered useful for managers making decisions about exports remained about the same over the span of the three surveys, foreign competition intensified and export operations became increasingly important for growth and survival.

In the interviews conducted at the end of the study with managers who had survived for more than 35 years, the information most of the managers found useful was relatively general and of limited importance to export decisions. They suggested that since most orders were unsolicited, they contained most of the information managers needed to ship the order and receive payment. Managers who were more aggressive about seeking orders typically looked for additional information to help them reduce any potential risk in their export transactions.

Managers interviewed at the start of this study perceived as useful information about all kinds of factors related to making decisions about exporting. However, after many years of experience, managers indicated that information only about certain factors might be useful. Furthermore, experienced managers interviewed at the end of the study discussed the possibility that the information needed to successfully fill an export order is directly related to that particular order. This means that each export order is unique and requires specific information to fill it. That is the main reason why only a small number of managers found information about a limited number of factors to be useful.

## **Conclusion**

Beginning export operations and deciding to fill first export orders — or internationalizing in a broader contemporary context, such as joint ventures or direct investment, among others — are relatively difficult decisions for managers of smaller manufacturing enterprises to make. The nature and urgency of the decision has changed considerably over the years. In the mid-1970s, the decision was made by forward-looking, proactive managers who perceived the potential of foreign markets, or the decision was made out of necessity. The decision was most likely motivated by outside forces and made on the basis of an unsolicited order.

In the mid-1980s, managers decided to internationalize because their domestic markets were changing. Those markets were frequently invaded by foreign competitors, and customers were looking for more

competitive and better-performing products. Smaller manufacturing enterprises had to search for alternative sources of supplies and had to look in foreign markets to find them. They became experienced in international operations by purchasing abroad, which encouraged them to begin exporting or to use other foreign market entry initiatives.

Later in the 1980s, first export orders or first contacts with foreign entities took on a new character. The Internet opened up unexpected options for smaller manufacturing enterprises to internationalize. The webpage became a two-way entry point into the global marketplace. Unsolicited orders from unforeseen potential customers placed pressure on managers to decide for the first time to export products, be subjected to takeovers, or join various evolving arrangements (such as supply chains, industrial networks, or value chains). Managers in the late 1980s again decided to participate in international operations because of unsolicited inquiries.

By the mid-1990s, managers of smaller manufacturing enterprises had little choice but to internationalize. Foreign markets and competition had changed and, in order to compete and survive, these enterprises also had to change. Those enterprises which began exporting, or became involved in international operations in any other way, entered a system that was already organized and that managed to accommodate a variety of international operations. Managers who began international operations in the mid-1990s entered a relatively predictable world of international operations.

The managers who have survived the past 35 years suggest that it is commonly accepted today that their enterprises will participate in as many foreign markets as possible, and that the first export order is now viewed in the same way as an order from a domestic customer.