

Introduction

Historical Perspective on Internationalization of Smaller Manufacturing Enterprises

This book provides a historical perspective on how smaller manufacturing enterprises operate, grow, and internationalize in a single environment, i.e. in the U.S. state of Wisconsin. The study on which this work is based focuses on individual managers — frequently owners of smaller manufacturing enterprises — who managed these enterprises in both their growing and sometimes declining years. These owner-managers might be easily classified into several managerial types with different managerial abilities, skills, and approaches to decision making. These decision-making propensities and capabilities are clearly reflected in their market positioning efforts, competitive posturing, and efforts to internationalize. For a majority of these enterprises, over the years, the internationalization efforts (among other challenges) were most critical.

The Objective

Our objective is not to contribute to the diversity of studies that over the years have broadened the understanding of internationalization among small- and medium-sized enterprises. Our objective instead is to focus exclusively on the subset of smaller manufacturing enterprises and provide a longitudinal perspective on their internationalization experiences. At the same time, in a small way, we would like to compare the internationalization experiences of smaller manufacturing

firms in Wisconsin with those in other parts of the world. Based on our professional experiences, and by convenience, we selected smaller manufacturing enterprises from the Czech Republic, Denmark, and Sweden. These comparisons are useful in attempting to understand internationalization as a managerial phenomenon in different countries. The smaller manufacturing enterprises in Denmark and Sweden have experienced internationalization for a much longer time than have their Wisconsin counterparts. The Czech Republic is a relatively new country, and their smaller manufacturing firms represent a fairly new development in their economy and offer different perspectives on the internationalization experience.

Internationalization

This book focuses primarily on the international context in which smaller manufacturing enterprises grow and operate today. An important component of the internationalization context is the concept of *internationalization* itself combined with the notion of international competition. At the beginning of this study, the issue of internationalization had not yet emerged. The emphasis instead was on exporting — increased export activities promoted by local and state governments. Many smaller manufacturing enterprises received unsolicited orders that they frequently did not fill because they did not know how. In the international climate of the mid-1970s and early 1980s, sales revenue derived from exports was only marginally important. Today, the situation is different: international sales are essential to the survival of these enterprises.

The internationalization of smaller manufacturing enterprises is essential because the traditional domestic market boundaries no longer exist. International competition has taken over and is forcing enterprises, regardless of size, to grow and operate on a broader and more international level. Competition at this level also demands that enterprises systematically re-examine their competitive posture, assess their market position, and evaluate their technological competence in the international context. Traditional relationships in consumer and business-to-business markets have given way to memberships in

international supply chains, participation in complex value chains, and the reliance on international outsourcing. As a result, smaller manufacturing enterprises have become more integrated into these predominantly internationally based relationships.

Information Technology and Internationalization

The internationalization phenomenon is partly driven by the global marketplace which is, to a greater extent, a byproduct of the information technology revolution. Information technology has changed how smaller manufacturing enterprises communicate and exchange information. When these enterprises placed their webpages on the Internet, they instantly opened themselves to the broad international world. The Internet conveyed to the world that these companies do exist. Another easily accessible link is electronic mail, or email; which makes it possible for smaller manufacturing firms to communicate with their existing or potential customers anywhere in the world. From this perspective, Wisconsin enterprises have, in a way, become global enterprises.

Almost immediately after the smaller manufacturing enterprises posted their webpages on the Internet, they started receiving unsolicited inquiries and orders, occasionally accompanied by a confirmed letter of credit. As a result, many of them were overwhelmed by the volume of foreign attention they received. Even today, some enterprises choose to respond to these requests and some do not. Those who have decided to respond have had to internationalize their current business model. Unfortunately, very few managers understand how to successfully internationalize their growth strategies and operations to meet the needs of their international customers.

Internationalization as a Reality

The majority of managers realize that, in the present global economy, they need to internationalize their enterprises if they are to survive. This reality is particularly significant for the older and more traditional enterprises that, over many years, approached internationalization as

an evolutionary process. However, for some of the recently formed smaller manufacturing enterprises, the internationalization process is more dramatic. New business start-ups that internalized information technology in the form of Internet communication as part of their business models had no choice but to include internationalization as an essential component of their fundamental business model. Consequently, over the years, internationalization has become an inevitable challenge for both established traditional smaller manufacturing enterprises and new start-ups.

Complexity of Internationalization

Internationalizing smaller manufacturing enterprises is not a simple process. The impact of internationalization varies depending on the nature of the industry and the type of product or market, as well as on the management style of each decision maker within each smaller manufacturing enterprise. For some smaller manufacturing enterprises, internationalization is externally driven by a number of outside forces, while for others it is internally driven by employees who have some vested interest in the global marketplace.

Individuals who influence the internationalization process among smaller manufacturing enterprises, either internally or externally, tend to be accountants, attorneys, consultants, government specialists in international commerce, and the managers themselves. These individuals, or groups of individuals, have their own motivations and objectives for helping smaller manufacturing enterprises internationalize. However, their inputs into the internationalization process are important. Some of these inputs relate to the managerial issues of internationalization, while others relate to public policy considerations. While managerial issues concerned with internationalization have implications for the market and competitive effectiveness and efficiency of the enterprise, public policy considerations are more complex. All levels of governments are interested in the internationalization of smaller manufacturing enterprises for several reasons. Smaller manufacturing enterprises that become successful international competitors create jobs, increase tax revenue, promote

economic growth, and stabilize the economy. But more than that, they also provide the necessary foundations for new industries, create strong competitive advantages within geographic regions, create industrial clusters, and consolidate knowledge areas and industries. Consequently, smaller manufacturing enterprises provide internationally competitive foundations for regions, states, and countries.

The major deficiency of internationalization is the realization that the field of international management lacks a comprehensive and uniform theory of internationalization, especially among the smaller manufacturing enterprises. Existing theories are eclectic, normative, and frequently prescriptive. Many current theories are founded in substantially diverse cultural and historical settings. Others are based on sets of broad generalizations gathered from incomplete data from relatively diverse groups of small- and medium-sized enterprises that do not fully represent the traditional smaller manufacturing enterprises.

Discussions concerning the growth and operations of small- and medium-sized enterprises have gone on for more than 40 years. By now, economists, sociologists, technologists, and even enterprise managers accept the notion that small- and medium-sized enterprises provide a necessary economic, social, and technological foundation upon which larger enterprises grow and mature. Such enterprises serve as sources for novel ideas, new technologies, innovative products, and pioneering management styles. As a result of these inventive activities, numerous industries have emerged. The growth of new industries extends opportunities for existing markets to offer new products and services, enables banks and other financial institutions to provide a variety of financial services, and allows for the injection of new technology into stagnant industries. Even governments encourage start-ups of small- and medium-sized enterprises because they represent potential sources of tax revenue, employment opportunities, and economic stability.

Small- and Medium-Sized Enterprises vs. Smaller Manufacturing Enterprises

Even though not all small- and medium-sized enterprises are the same, the literature tends to combine different types of small- and

medium-sized enterprises into one category. The present study is specifically about smaller manufacturing enterprises. Smaller manufacturing enterprises differ significantly from service enterprises, which only offer services and have different economic, social, or technological objectives. Smaller manufacturing enterprises constitute a homogeneous subgroup of small- and medium-sized enterprises. Their common dimension is manufacturing. Manufacturing represents the entire process of creating the physical form of a product, component, accessory, major piece of equipment, or even a large production facility. Smaller manufacturing enterprises create value. The contents of this book refer entirely to smaller manufacturing enterprises.

The Longitudinal Study

The survey presented here was a long-term study. For more than 35 years, this study examined both the domestic and international growth and operations of almost 500 smaller manufacturing enterprises that existed in a single environment and that were subject to the same economic, social, legal, technological, and lifestyle surroundings. As each state in the United States is unique, so it is with the state of Wisconsin. Wisconsin has its own economic climate that directly impacts the operational stability of its enterprises. It has its own homogeneous social climate that, because of its early immigrants, very much reflects Northern and Central European social values. Its legal environment addresses, in a very specific and traditionally progressive manner, the relationship between the Government of the State of Wisconsin and its commerce. Wisconsin is known as being technologically innovative. Mostly through its public universities, it maintains innovative educational programs in sciences, engineering, and medicine, among others. A significant number of graduates from such programs remain in Wisconsin and start their own businesses. In addition, Wisconsin's physical environment and consequential lifestyles mirror its geographic location and abundance of outdoor activities. The behavior of businesses over the past 35 years or more while this study was underway clearly demonstrated that Wisconsin-based smaller manufacturing enterprises tend to operate in a similar fashion.

The study that provided the basis for this appraisal of growth and operations of smaller manufacturing enterprises consisted of several stages. It started in the early 1970s with a series of 23 interviews with managers of Wisconsin smaller manufacturing enterprises. The selected enterprises were listed in the Classified Directory of Wisconsin Manufacturers, published by the Wisconsin Manufacturers Association. Thirty enterprises were originally selected for these interviews. The researchers used a consensus-building interview methodology for this part of the study. The objective was to find common factors among the enterprises that could provide a foundation for a much broader study. Sufficient consensus was reached during the 23rd interview, after which the interviewing process was stopped.

Responses from the managers were generally the same, with some exceptions. The series of interviews focused on three major areas: the managerial profile and orientation of each enterprise; the general formulation of their marketing and growth strategies; and issues directly related to components of growth, i.e. product and market development, market penetration, diversification, and development of exports. Exports, as a concept, was a proxy for the concept of internationalization, which was introduced in about 1995. Except for information about export operations, much overlap occurred in the findings from these interviews. Approximately one third of the enterprises interviewed exported their products. The important factors identified during the interviews were used in the second stage of the study.

A questionnaire, based on the input from the series of interviews, was designed and mailed to a sample of Wisconsin smaller manufacturing enterprises. A total of 474 enterprises responded to the survey. The first mailing produced interesting perspectives on how the smaller manufacturing enterprises were growing and operating at that time. Key findings included a strong focus on the product and process as well as a lack of marketing, but the export factor (which was also included) became important.

Ten years later, using the same research instrument and methodology, 288 of the original enterprises were still operational and responded to a second survey. Very little had changed among the

smaller manufacturing enterprises in Wisconsin. The internationalization issue remained significant, the product and process focus was constant, and the enterprises lacked marketing abilities. Another 10 years later, again using the same research instrument and methodology, 101 of the original enterprises responded to a third survey. The third mail survey did not produce any major surprises either. Twenty years after the original survey, the enterprises had changed very little in terms of their growth and operations; however, a shift in operations towards internationalization had occurred. Approximately 10 years after the third mail survey, only 82 enterprises from the original sample of 474 could be identified.

The attrition rate is interesting and important. During the past 30 years or more, some of the original enterprises simply ceased operations; others were sold or had merged with other entities, within or outside of Wisconsin; some changed their names; and in some cases they moved out of state or abroad. The 82 enterprises that remained had not changed considerably over the years. Nevertheless, there were some changes. To determine the nature of these changes, a series of interviews using the consensus methodology approach was used again and six abridged research cases were collected — they are a part of this research. A series of six interviews was conducted with randomly selected enterprises from the surviving list of 82. Ownership changes, issues of top management succession, and internationalization were important topics of discussion during the interviews.

In addition to changes in ownership and issues of top management succession, the issue of changes in management style also became an important consideration. In some cases, the original founder and owner-manager had been replaced by a professional manager with a vested interest in the enterprise. Some of the remaining enterprises introduced a variety of new products; some entered new domestic and foreign markets, i.e. internationalized their operations; and some diversified into other businesses. Also, over the duration of this study, a number of the enterprises had taken on a completely new character. Some progressed from being fabricators of equipment tailored to customers' specifications to highly efficient manufacturers of upscale branded product lines, while others advanced

from lines of low-technology products to high-technology engineered and manufactured installations.

For six of these transformed enterprises, the authors examined how current management perceives growth and operations in the contemporary international environment. This was an interesting and challenging exercise. In some instances, we had a more comprehensive perspective on the enterprise and its history than the present manager in charge. The six interviews provided invaluable information. Six short research cases were prepared and are included in this book.

Our Approach

Our perspectives on internationalization are based on three approaches. The first approach consists of a systematic and formally structured survey study of a sample of smaller manufacturing enterprises in a homogeneous business environment that was conducted three times during the period of the study. The second approach is based on a collection of research cases obtained from smaller manufacturing enterprises that were a part of the study in Wisconsin and research cases developed from interviews with enterprises in the three other countries of the Czech Republic, Denmark, and Sweden. Finally, there were opportunities to personally interact directly with the managers of some of the enterprises. During these interactions, we asked questions and observed how decisions concerning their own internationalization were made and implemented. Over the years, these opportunities offered an important insight into the internationalization process of smaller manufacturing enterprises in Wisconsin. How much our observations and conclusions can be extended to other states or countries is subject to conjecture.

It is important to point out, however, that this study is only an attempt to understand how, over many years, the smaller manufacturing enterprises have dealt with their internationalization issues and concerns. This is not a complete picture of internationalization among the entire population of smaller manufacturing enterprises found globally. Our research is a composite of experiences of a specific

group of smaller manufacturing enterprises supplemented with limited experience of similar enterprises in other countries.

We hope that this book will provide opportunities for other researchers, doctoral students, and even practitioners to find concepts, ideas, or generalizations suitable for further research in the area of the internationalization of smaller manufacturing enterprises. We need to know more about internationalization as a concept. We need to know even more about how the concept is implemented among smaller manufacturing enterprises trying to become a part of the large global marketplace. As academics, researchers, public policy specialists, and even as managers, we need to know more about how internationalization as a managerial concept is used to confront international competition and assist managers of smaller (existing and emerging) manufacturing enterprises to survive.