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The Impact of International Marketing on SME’s.

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SME’s contribute greatly to international trade and wealth creation and I am conscious of the fact that I am on an island where SME’s are important to the local economy and that this island has been trading within the Mediterranean region for thousands of years. It has been approximately 22 years since I was last in Cyprus, I know that I have changed and I know that Cyprus has changed. When I was here last, Cyprus was thinking nervously about joining the EU. Cyprus then, apart from other exports, had half of the UK market for sherry and had a large volume of wine exports to countries like Russia. This has all changed. Partly, it is due to EU regulations and the protected designation of origin of products, which came into force in the EU in 1992. Protected designation of origin (PDO), protected geographical indication (PGI) and Traditional Speciality Guaranteed (TSG) are geographical indications (Gis) emphasising particular provenance, for example, pies from Melton Mowbray, sherry from Jerez, cheeses from Roquefort or Camembert from Normandy, France. Wines and spirits have also been affected in the same way. Cyprus in fact lost the right to call its Cyprus Sherry ‘sherry’ and without this very important defining label, the market then simply collapsed. How was the consumer now to request ‘sherry’ without reference to the name?

Change is often brought about by technology and as we sit here, we are using technology or have technology in our pockets, wallets and bags. Technology changes our way of life in many respects from cooking to communicating to leisure games. In each case, change has been introduced from microwaves to laptops and PDA’s to IPods and the Wii. Change is also
partly due to the simple fact that people change and their tastes change and so we need to continually monitor and detect changes in consumer tastes and modify marketing strategies accordingly, for we have to realise that even successful marketing strategies burn out and cease to function effectively. In our own right, we are all individual consumers who are gathered here and yet there are probably few amongst us who have maintained their allegiance to the same brands of ten years ago, fewer even to twenty years ago.

In fact, working within this title that I was given – “The Impact of International marketing on SME’s” - my very first thought was that instead of discussing the impact of international marketing on SME’s, we should really reverse the title to look at SME’s and their effect on international marketing! Majocchi and Zuchella (2003) state that in an increasingly integrated market, all enterprises are in effect international; whether or not firms’ activities extend beyond national borders. Why? because the environment that tempers strategy, business models and performance is an international one. They in fact collected data from 220 Italian SME’s and investigated the relationship between internationalisation and performance. They suggest that performance is not determined by export intensity but by the ability of firms to gain access to specific markets e.g. North America.

Living in an age where we can communicate effortlessly in real time, we take so much for granted but while the new technologies offer many advantages there are disadvantages as well. Where an SME has a unique product and good technical support, the Internet would then create possibilities for independence. Internet marketing has created a pathway for SME’s into the global marketplace, for, on the Internet, no one can see your size. A proxy then for the customer is to turn to vendor ratings which are becoming increasingly
important and the number and quality of such ratings is displacing the more traditional
criteria of company size and date of establishment.

Take the long established SME in Birmingham that makes traditional brass bathroom
fittings, they found within two days of exhibiting their range on their new website that their
designs were being copied in the Far East. How? Through monitoring the Web! The Global
Village has arrived and everything that we do or say, can and is being seen and heard in
other countries only seconds away. A demonstration effect can create customers but it can
also create competitors. However, no matter how much easier we may think life was in the
past, we can never go backwards, the only direction is forward. Locations are still important
but competition is becoming increasingly intense and what may be seen as a natural
competitive advantage appears often to have less impact than previously. Ricart et al (2004)
in discussing research streams in the literature note how the strategies of the firms involved
in international business receive scant attention relative to the organisation and
management of multinational firms. Ricart et al then proceed to advance a view of the
world as an ecology of locations and of firms. Just as firms may be categorised in several
ways in terms of size, management, etc so the places in which firms operate may be equally
diverse. As Ghemawat (2001) has pointed out, there are Cultural, Administrative,
Geographic and Economic differences adding in total to a CAGE framework. Ricart et al
advocate the collocation of the two ecologies of places and of firms, questioning whether
firms should be focussing on servicing only the top of the pyramid of developed nations
when servicing the bottom of the pyramid would open up markets in many underdeveloped
markets. Enright (2002) suggested that sources of advantage at the firm level are found in
activities, resources and knowledge and their interactions, in what has come to be called the ARK view of strategy. This brings together different kinds of firms with different types of places.

Again from a societal viewpoint, SME’s are subjected to international pressures with foreign firms often changing the nature of competition with design, dependable quality, increased service levels, credit provision and reliable delivery. Yet again, what consumers drink, eat, watch, read, listen to and play with, is often driven by a demonstration effect arising primarily from the USA with its massive innovation and media resources. SME’s, on the other hand, typically have few resources to devote to marketing, so they often need to look to establishing relationships with others. They need information and support and so a symbiotic relationship with an important industry player may present many opportunities but typically it is limited also to a supply role in which their contribution is seldom acknowledged. Outsourcing is a feature of the trade with India and China but as demand increases so costs increase and so this phenomenon of outsourcing is forever spreading outwards and the relentless marketisation of economies continues now into the relatively virgin territory of countries such as Laos, Cambodia, Vietnam and Thailand.

It is interesting that Cyprus should now share a common definition of a SME with 26 other countries. The EU standard definition now across all members is that an enterprise is considered to be an SME if it employs fewer than 250 persons and has an annual turnover not exceeding €50 million and/or an annual balance sheet total not exceeding €43 million. SME’s are the same therefore across the EU but may be perceived as large or small within their respective home domains. This definition would allow for many different types of firm
and different types of ownership under the scope of being an SME. It does allow for research now to be harmonised across twenty seven nations. Furthermore, the very nature of EU market integration will influence the firm’s internationalisation. However, the study undertaken by Keng and Jiuan (2001) on the differences between small and medium sized exporting and non-exporting firms in Singapore, a country highly dependent on external trade, discovered that more than three quarters of the non exporters were locally owned. The education level of the chief executive officer proved to be a factor among exporters and the higher the level of education, the higher the degree of export involvement. Nonetheless, the ability of SME’s to compete is curtailed by their lack of resources. Competition today extends beyond any nation state; it is international and certainly regional if not global.

Companies everywhere and of all sizes are on the lookout for good margins, rapid growth and the ability to lead markets rather than simply play in them. There are of course, moral, ethical and legal constraints but it has never impeded competition and competition is becoming increasingly intense in terms of its makeup and the national origins of players and the rules, if any, which they compete by. Against this, few companies today are able to state clearly their competitive advantage and this is both a management weakness and a strategic failing. However, the strategic management and internationalisation policies of SME’s differ substantially from those of much larger firms. (Dana et al, 1999). A strong international commitment combined with an entrepreneurial orientation appears to enable SME’s to overcome many hurdles but it depends as much upon the possession of unique assets as well as commitment.
There are many inequalities to be found in life. Within the trade justice movement, there is a quotation which is often cited and it comes from Dr Robert Aboagye-Mensah, General Secretary of the Christian Council of Ghana who said:

> International trade between my country and the West is like an antelope and a giraffe competing for food which is at the top of a tree. You can make the ground beneath their feet level but the contest will still not be fair.

(http://www.christianaid.org.uk)

Many SME’s would see the contest in similar terms. SME’s need to be encouraged for internationalisation can make them more efficient in reallocating their resources and improving their overall competitiveness so there is a public policy dimension here about investing in the conditions necessary to develop the creativity, innovation, high value added and growth that we have come to expect of successful SME’s, for with it comes jobs and wealth creation.

Internal growth and profitability are key drivers of the SME and can lead SME’s into new markets to pursue either a profitable niche or explore growth through the achievement of economies of scale. There are advantages that may be seen in terms of volume of production but a new and foreign market is a good way for a SME to spread risk, for it will then no longer be subject to the vagaries of the home market but have a second market, thereby spreading the risk of market collapse. However, as the old saying goes, ‘you can lead a horse to water but you cannot make it drink’ and so it is with SME’s and their owner-managers. Internationalisation will not appeal to everyone and to be successful, top
management support and direction is required so if there is not a clear will to succeed in foreign markets, it may be fruitless to even try it. Government may seek to persuade, cajole and incentivise but it cannot compel companies to internationalise.

There are many different types of firm, many different types of owner-manager, differences in resource base, experience and marketability of the core competitive advantage and these give rise to different modes of market entry which fall into three main groups: export, contract and investment modes (Root, 1994). Industries may already be internationally concentrated in a few geographical pockets but will already be known to each other. When new markets open up as happened with Central Europe and the enlargement of the EU, strategic alliances started to be formed between key players across the different countries. However, with the passage of time, it then becomes difficult to find a partner who is not already under contract with another and so the choices of possible partners deteriorate in quality. The issue of selection may then be forced and require to be made from among those that may be classed as belonging to a less suitable secondary or lower tier of industry.

What we know:

The internationalisation process for small firms is neither linear nor unidirectional (Turnbull, 1987). Internationalisation has been investigated on two fronts: firstly, the factors causing internationalisation and secondly, the internationalisation process itself. (Fletcher, 2001). The internationalisation process has been detailed in a longitudinal study of a small sample of pharmaceutical and scientific instrument companies by Buckley and Chapman(1997) while Gemser
et al, (2004) focused especially on small businesses in their study of Dutch Old and New Economy Firms, typifying what are often referred to as ‘sunrise’ and sunset’ industries, contrasting mechanical engineering on the one hand with the computer software industry and exploring the possibilities for companies to go it alone as opposed to adopting forms of collaboration. Yet collaboration requires coordination of inputs and that in itself carries costs. Fink and Kraus (2007) in a study of SME’s in Austria, Czech Republic and Slovenia found that trust-based cooperation relationships with foreign partners positively affected success.

Yet there are limits to internationalisation theories in their ability to explain the currently observed behaviour of firms involved in international business in terms of how they expand in export markets or capital investments or decision making that involves entry mode choice (Axinn and Matthyssens, 2002). Again, the importance and support of the owner-manager for internationalisation is paramount.

There is a growing importance also in many industries of the use of multiple channels. The Rod McNaughton (2002) study in International Marketing Review seeks to identify some of the circumstances in which multiple export channels might be successfully used by smaller firms to enhance their sales performance in a foreign market(s). A transaction cost analysis model of the circumstances in which even small knowledge intensive firms, e.g. software development, can use multiple channels is offered.

Using a case study approach, Bill Merrilees and James Tiessen sought to develop a small to medium size enterprise (SME) marketing model of the internationalization process of Canadian firms. In actuality, two distinct SME international marketing models resulted from their 12-firm study. These two models were labelled by the authors as sales-driven international marketing and relationship-driven international marketing. In their study, a single country of export and import was chosen.

Canada, of course, served as the export country and Japan was selected as the import country as it is
the second largest importer of Canadian goods. Besides their contribution via the development of
the model designed for small- to medium sized exporters, the authors achieved their objective of
using longitudinal case studies of the 12 firms to develop appropriate “… theories of SME
international marketing”. However, they recognized that they could not “…extrapolate the validity
of the theories beyond the 12 case studies”. This may be viewed as a more responsible statement
than is made by many.

Public Policy Dimension

Export development always arises within this context. The findings of a study in Cyprus by Kaleka
and Katsikeas (1995) of regular and sporadic exporters, suggest that the two most important export
problems experienced by SME’s were associated with the intensity of competition in export markets
and the lack of effective national export policies. Sylvie Chetty and Desiree Blankenburg Holm
(2000) used a longitudinal case study of four New Zealand firms conducted in 1992 and 1995 to
determine the firms’ response to the N.Z. government efforts to expand exporting through
collaborations. (A basic assumption in this paper was that business takes place in a network setting.)
One advantage of using small-to medium-sized firms in their research, which was noted by the
authors, was the greater access to decision-makers it provided. The authors enhance the value of
their study to the international reader by their thorough description of their methodology and their
data collection approach. The four firms used in the study fall into four categories, i.e. Early Starter,
Late Starter, Lonely International, and International based on their export debut and mode of entry
and were given assistance by Trade New Zealand, N.Z.’s export promotion organization. As
described in the paper, the authors’ findings come back to the Stages Model and suggested certain
weaknesses in the Johanson and Mattsson (1988) model. An important implication from this
rigorous study is that it demonstrates how firms can obtain knowledge, learn from experiences and
pool resources in their business networks. However, it must be remembered that this may be
achieved more easily in New Zealand. An important attribute of this research is the rigour employed by the researchers. Finally, as noted in the article’s abstract, the paper “…identifies the theoretical gap in the literature, which is the focus on organically developed networks rather than formal structured ones”. As the authors note, “Networks can help firms expose themselves to new opportunities, obtain knowledge, learn from experiences and benefit from the synergistic effect of pooled resources.”

Nicole Coviello and Hugh Munro pointed out that smaller firms in the software industry are strongly influenced by their network relationships in their internationalization process. In particular, the purpose of their research was to “…extend our understanding of the impact of network relationships on the internationalization patterns and processes of small firms”. The researchers used multi-site case study methodology. The population from which the case sites were selected consisted of New Zealand-base software developers. The authors noted that “Within the context of knowledge-based, non-manufacturing software developers, the findings suggest that our understanding of the internationalization process for…small software firms can be enhanced by integrating the model of incremental internationalization with the network perspective”. While this is again research conducted in New Zealand, it offers an environment in which it is much easier to identify the interactions between the various firms. Bell, et al. offer a very extensive bibliography that covers articles relating to “traditional”, “born global” and “born again global” approaches to internationalization dependent upon the degree to which they were proactive or reactive. ‘Born global’ firms were typically knowledge based or knowledge intensive and proactively sought specialised niche markets whereas the ‘born again’ global firms were essentially responding to an incident deemed to be critical in so far as their own company was concerned, which would drive them to then consider new networks or resources. Especially valuable insights are provided by Bell et al in two later sections: the first section entitled
“Managerial, public policy and research implications” and the second “Implications for public support of firm internationalization”.

**Reinvention.** We all need to reinvent ourselves to stay in business. We all need to learn new techniques, adopt new strategies without which there is no future. Stalk and Lachenauer (2004) in a Harvard Business Review article presented a manifesto and the strategies that were derived from it. You need to understand both your competitor and your customer. The following matrix describes ‘killer strategies’ and so may not be readily endorsed by everyone. As an ethical manager, you may not wish to even consider the following strategies but you may well have a competitor who will!

**Five Killer Strategies for trouncing the Competition**

<table>
<thead>
<tr>
<th>The Manifesto</th>
<th>The Resultant Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relearn the fundamental behaviours of winning</td>
<td>Deploy these in bursts of ruthless intensity</td>
</tr>
<tr>
<td>Focus relentlessly on competitive advantage</td>
<td>Devastate rivals’ profit sanctuaries</td>
</tr>
<tr>
<td>Strive for ‘extreme’ competitive advantage</td>
<td>Plagiarize with pride</td>
</tr>
<tr>
<td>Avoid attacking directly</td>
<td>Deceive the competition</td>
</tr>
<tr>
<td>Exploit people’s will to win</td>
<td>Unleash massive and overwhelming force</td>
</tr>
<tr>
<td>Know the caution zone</td>
<td>Raise competitors’ costs</td>
</tr>
</tbody>
</table>

**Redefining and re-orienting the business and the industry.** Supply is overtaking demand in more and more industries. Kim and Mauborgne (2004) again in a Harvard Business Review article, advocate steering away from the overcrowded industries if the aim is to sustain high
performance. They take the example of Cirque du Soleil which successfully increased its revenues by a factor of 22 over a ten year period. They made their competition irrelevant by redefining the business that they were in and were soon even able to charge a premium.

Redefining the business and altering the boundaries, is one way to succeed. Another is to enter a new industry as eBay did in creating new electronic virtual auctions. The point here is that you are seeking to develop markets where little or no competition exists. This is what Kim and Mauborgne refer to as the ‘blue oceans’ which they maintain are right beside you in every industry. Specialised knowledge acquisition and service excellence may be two ways in which to move away from the red ocean to the blue ocean. The blue oceans are mainly industries not in existence today whereas the red oceans are where everyone else is, where the water is bloody and where, consequently, it is becoming increasingly difficult to outperform rivals and the prospects for growth and profitability are constantly diminishing.

The search now for the open blue oceans has made this article by Kim and Mauborgne one of the most highly sought after HBR reprints and opens up for investigation how firms research and review markets as well as their own potential and performance.

In conclusion, it is perhaps appropriate then to recall the main conclusion in a study in Norway in 1999 of the relationship between firm size, competitive advantages and export performance, which found that small exporting firms are just as successful in international markets as larger exporting firms, mainly due to a situation where only the most competitive small firms are exporting. The major competitive advantage is their products and technology. This effect is especially strong for the very smallest of the firms (less than 10 employees). It would appear that the case for international marketing making companies more competitive is well established.
Post-Script:

After completing this paper, I came across a highly relevant article in the new March issue of the Harvard Business Review (March 2008) by Battacharya and Michael entitled: “How Local companies keep Multinationals at Bay” pp84-95. Over a three year period, the authors studied 10 rapidly developing countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Poland, Russia, Slovakia, and Thailand. In these countries – remember that if you take the first four countries in this alone, you have included more than half the world’s population – domestic companies are holding out against foreign competition from the multinational corporations using the latest technologies. The resilience of the SME confronted with intense competition emphasises that is definitely has a future and should not be readily dismissed.
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