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## The impact of internationalisation on the competitive strategies of SMEs

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**Abstract:** The aim of this research was to study the effect of internationalisation on the competitive strategies of Small- and Medium-sized Enterprises (SMEs). An empirical study, based on the 'strategic fit' theory, was conducted on a sample of 59 SMEs. It revealed that international SMEs are significantly different from regional SMEs in terms of a number of 'competitive dimensions'. International SMEs are exposed to greater demands with regard to differentiating their products and minimising their production costs. They also adopt more pronounced concentration strategies.

**Keywords:** internationalisation; Small- and Medium-sized Enterprise; SME; competitive strategy; differentiation; costs.

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## 1 Introduction

Market globalisation, once the prerogative of multinationals, is now an increasingly common phenomenon in SMEs (Chell, 2001; Choy, 1995; Fujita, 1995; Julien, 1995; Roth, 1992; Torrès, 2002). Better knowledge and better understanding of the international strategies of SMEs is now of major importance for public decision makers, the owners of SMEs and, as a result, for the academic community. This research is essentially focused on the managing director and how he integrates networks (Chetty and Blackenburg-Holm, 2000; Dana, 2001; Dana *et al.*, 2002; Gemser *et al.*, 2004), in the widest variety of forms (strategies of alliance, partnership, franchise, to name but a few), to such an extent that Wright and Dana (2003) now speak of the “*new paradigm of multi-polar competition*”.

It can be noticed that most of these studies come more in the context of entrepreneurship, preferring explanations based on the director’s entrepreneurial capacities (Chell, 2001; Fletcher, 2004). On the contrary, the content of SME strategies has been considerably less studied. On the few occasions where it is studied, all the studies, without exception (Chang and Grub, 1992; Lefebvre *et al.*, 1993; Namiki, 1988) focus on the very limited aspects of competitive strategies. For example, many studies focus essentially on innovation as the key element for the success of SMEs in export (Conus, 1993; Coviello and McAuley, 1999; Lefebvre and Lefebvre, 1993; Mangaliso, 1992; Wolff and Pett, 2000; Chell 2001). Yet, research work into competitive strategies, be they conceptual (Porter, 1980; Porter, 1985) or empirical (Dess and Davis, 1984; Miller, 1988; Miller and Friesen, 1986a; Miller and Friesen, 1986b), retain many other aspects, such as the quality of the products, production cost control, segment scope, advertising efforts and so on.

From this point of view, the aim of this research was to study the effects of internationalisation on the competitive strategies of SMEs. An empirical study, based on the ‘strategic fit’ theory, was conducted on a sample of 59 SMEs. It revealed that international SMEs were significantly different from regional SMEs in relation to a large number of ‘competitive dimensions’. International SMEs were exposed to greater demands in terms of differentiating their products and minimising their production costs. They also adopted more pronounced concentration strategies.

## 2 Theoretical basis

### 2.1 *Internationalisation as a contingency factor*

Since the 1980s, the *strategic fit* theory has been widely presented in research into strategic management. Despite a variety of different names, such as *coalignment* (Venkatraman, 1990), *fit* (Venkatraman, 1989; Lawless and Finch, 1989), *organisational*

*alignment* (Powell, 1992), *relationship* (Prescott, 1986), *etc.*, the idea that there is coherence between environmental factors and a company's strategy has been the origin of many research papers (Hofer, 1975; Bourgeois, 1980). For a long time, it was also a key part of the very definition of corporate strategy (*i.e.*, the ability to adapt to the environment).

The *strategic fit* theory has nevertheless attracted less attention in the field of SMEs. It can, however, be supposed that it is the entire management system of an SME that should be influenced by a contingency factor, such as the internationalisation of its market (Walters and Samiee, 1990; Moini, 1992; Julien, 1995; Torrès, 2002). Similarly, when looking at past research into SMEs, it seems that internationalisation has a strong influence on strategies (Coviello and McAuley, 1999; Wolff and Pett, 2000). For example, Conus (1993) and Sterlacchini (1999) show that there is a relationship between the share of turnover made abroad and an SME's propensity for innovation. Similarly, the export successes of certain SMEs may be explained by their capacity for product innovation, whereas SMEs that are present solely at the local level seem to be much less innovative.

In the study by Boyer (1994), the companies that succeed on local markets fail when it comes to export essentially because they try to apply the same strategy. On the contrary, those that succeed (or that are in the process of succeeding) apply a strategy that focuses on quality and innovation, which would probably not enable the company to develop at the local level. Boter and Holmquist (1996) observe in turn that:

"Innovative small companies all have a concentrated product scope, which implies that it is relatively easy to achieve efficiency in various functions such as R&D, production and marketing activities. This clear distinction between functions has been advantageous to the process of internationalization."

Finally, Saporta (1986) considers that the transition from a local to an international market can be explained by specialisation (which makes openness to international markets 'obligatory').

These few examples are in line with the high contingency factor of internationalisation. Being present on a local or international market implies applying different strategic behaviours, particularly in terms of innovation (Conus, 1993; Sterlacchini, 1999), quality (Boyer, 1994), marketing differentiation (Hart and Tzokas, 1999) and specialisation (Saporta, 1986). The interesting question is thus which of these many facets of competitive strategy are liable to be concerned with the internationalisation of an SME?

## 2.2 *Competitive strategy in SMEs*

The term 'competitive strategy' was popularised in strategic management by Porter (1980) and has given rise to considerable theoretical and empirical research (Campbell-Hunt, 2000; Dess and Davis, 1984; Miller, 1988; Miller and Friesen, 1986a; Miller and Friesen, 1986b). As a result of these works, Porter's thesis affirming the exclusivity of competitive strategies was abandoned. Research into competitive strategy nevertheless continued, taking a variety of different directions (Campbell-Hunt, 2000).

One approach consisted in considering Porter's propositions not as a normative model, but as an analysis framework that makes it possible to represent a company's strategy. In this 'dimensionalist'<sup>1</sup> approach, the different elements that make up

Porter's three competitive strategies, such as the originality of the product for the differentiation strategy, or strict control of production procedures for the cost control strategy, are all 'competitive dimensions' that characterise the strategic *design* of a company (Campbell-Hunt, 2000).

In this approach, the term 'competitive strategy' was taken up again in research on SMEs. Miller and Toulouse (1986) thus directly used the concepts introduced by Porter (1980) as strategy *design* when they studied the relationship among strategy, structure, the owner's personality and the performances of the SME. Similarly, Tsai *et al.* (1991) use competitive strategy typologies to study the effects of strategy and environment of the success of *corporate ventures* in industrial markets.

Kim and Choi (1994), in their study on the relationship between *strategic type* and the performances of SMEs in Korea, used the concept of 'competitive dimension'. Sixteen dimensions were thus used, grouped into four major strategies (*cost efficiency, innovation differentiation, marketing differentiation* and *asset parsimony*). Finally, D'Amboise (1993) justifies using these concepts in SMEs by showing that they make it possible to effectively identify the strategies they follow.

As a continuation of this research, that is, by positioning ourselves in a 'dimensionalist' perspective (Campbell-Hunt, 2000), we propose a certain number of associations between different 'competitive dimensions' and Porter's three competitive strategies (concentration strategy, differentiation strategy and cost domination strategy) (cf. Tables 1, 2 and 3).

**Table 1** The dimensions of concentration strategy

<i>Competitive strategy</i>	<i>Associated competitive dimensions</i>
Concentration strategy	Specialisation in a segment Specialisation of the product Unit margin rate

**Table 2** The dimensions of differentiation strategies

<i>Competitive strategy</i>	<i>Associated competitive dimensions</i>
Differentiation strategy	
Product differentiation	Originality of the product Quality of the product Product innovation Product technology Customer services R&D
Marketing differentiation	Sales force Advertising Communication Sales promotion

**Table 3** The dimensions of cost domination strategy

<i>Competitive strategy</i>	<i>Associated competitive dimensions</i>
Cost domination strategy	Cost control Innovation in production procedures Investment in new equipment Reduction in direct costs Minimisation of indirect costs Economies of scale Maximum use of production capacities

### 2.3 Internationalisation and competitive strategy in SMEs

Is internationalisation a contingency factor for the competitive strategy of SMEs? Generally speaking, many authors concur with the statement that exposure to international competition is a considerable contingency factor (Bartlett and Ghoshal, 1987; Porter, 1980; Westhead *et al.*, 2001). Roth and Morrison (1992) identify two types of company, those present solely on the national market and those present on both the national and international markets.

Their empirical results show that there is indeed, for certain competitive dimensions, a significant difference between these two types of company. The development of new products, brand image and patent ownership seem to be significantly more important ( $p < 0.01$ ) for international companies. Inversely, national companies tend to serve a more specific market and seem to put a greater emphasis on their considerable operational flexibility in relation to demand.

On the other hand, this research shows that it is more the existence of internationalisation, rather than the degree of internationalisation (percentage of export sales), that is the contingency factor.

Using these results as our basis, we propose a general theory for the contingency of internationalisation on competitive strategy in SMEs. We will identify two types of companies: SMEs present on a regional market<sup>2</sup> and SMEs present on both a regional market and one or more international markets.

*Proposition: the competitive dimensions of SMEs present solely on regional markets are significantly different from the competitive dimensions of SMEs present on international markets.*

## 3 Methodology

### 3.1 Sample

This empirical study was based on a sample of 59 SMEs from different sectors of activity (convenience sample). The people interviewed were either the owners of the companies or their closest assistant. The SMEs were independent and they all had less than 250 employees.

### 3.2 *Measuring the variables*

#### 3.2.1 *Internationalisation*

Internationalisation is measured by means of a simple indicator: the geographical zone of the company's market, which could be either regional or international. In this respect, Roth and Morrison (1992), like Westhead *et al.* (2001), identified two ways of being: companies that do not export and companies that do. We thus analysed the geographical scope of the company's market as a discrete variable by considering that going beyond the national level for export modifies the strategic behaviour of SMEs.

#### 3.2.2 *Competitive strategy*

There are many ways of measuring competitive strategy (Hambrick and Lei, 1985; Kotha and Vadlamani, 1995; Miller, 1987; Roth and Morrison, 1992; White, 1986). Several classifications of these different methods are possible. In simple terms, two types of methodology can be identified, forming the two poles from which a continuum is defined: the 'objective' approach and the 'subjective' approach. The objective approach is based on quantitative factors (Hambrick and Lei, 1985; White, 1986). The main advantage of this approach is the objective nature of the data, which gives a 'positive' aspect to the research. It should nevertheless be noted that it cannot, in fact, escape a certain subjectivity as the choice of indicator is, in itself, subjective.

The subjective approach is based essentially on questioning company owners on the importance they give to competitive dimensions (Kotha and Vadlamani, 1995; Miller, 1987; Roth and Morrison, 1992). It is then possible to make the criticism that this method does not, in fact, measure competitive strategy, only the owner's perception of it. However, in the research on SMEs, it is difficult to imagine using the same objective criteria as those for large companies, for example, the budget allocated to R&D, or the budget allocated to communication. It is effectively rare for these to be functional divisions in SME, which makes defining budgets, at the very least, perilous. Furthermore, it is particularly revealing to put oneself in the place of the owner, as he is the key player in the strategic decision making of this type of organisation (Julien, 2000).

We thus used a subjective measurement of competitive strategy, asking the interviewee to specify, for each of the competitive dimensions and on a scale from one to five, the perceived importance of the dimension in question for the survival and/or development of the company (Miller, 1987; Roth and Morrison, 1992). As shown in Tables 1, 2 and 3, competitive dimensions are associated with each type of competitive strategy. The scores obtained for the competitive dimensions were added together to define the competitive strategy score.<sup>3</sup> The results will thus be presented for each dimension and in a more global manner for each strategy. Analysis consisted essentially in a comparison of the average of the scores obtained for the competitive dimensions. Two categories were retained: companies that were at best regional and companies that were at least international.

## 4 **Results**

### 4.1 *Results for the concentration strategy*

Table 4 shows that the concentration strategy is highly influenced by internationalisation ( $p < 0.025$ ). More specifically, the international SME had a higher degree of specialisation ( $p < 0.025$ ) for greater unit margins ( $p < 0.025$ ) than the regional SME.

**Table 4** The results of the concentration strategy

<i>Competitive dimensions</i>	<i>Regional n = 33</i>	<i>International n = 26</i>	<i>Test</i>
Specialisation in a segment	2.72	2.88	–
Specialisation of the product	3.36	4.19	**
Unit margins	2.32	2.92	**
Specialisation average	2.85	3.39	**

Note: \*\*  $p < 0.025$ .

#### 4.2 Results for the differentiation strategy

Table 5 shows that the product differentiation strategy is, generally speaking, highly influenced by internationalisation ( $p < 0.025$ ). The quality of the product is the competitive dimension that is the most affected ( $p < 0.005$ ). Next come product technology and product R&D ( $p < 0.025$ ) whereas, paradoxically, product innovation is not significantly different.

**Table 5** The results for the product differentiation strategy

<i>Competitive dimensions</i>	<i>Regional n = 33</i>	<i>International n = 26</i>	<i>Test</i>
Originality of the product	3.47	3.48	–
Quality of the product	4.24	4.65	***
Product innovation	3.34	3.62	–
Product technology	2.72	3.31	*
Product R&D	2.25	3.00	**
Product differentiation average	3.07	3.61	**

Notes: \*  $p < 0.05$ .  
 \*\*  $p < 0.025$ .  
 \*\*\*  $p < 0.005$ .

Table 6 shows that the marketing differentiation strategy is practically unaffected by internationalisation. Only the sales force was significantly different ( $p < 0.05$ ).

**Table 6** The results for the marketing differentiation strategy

<i>Competitive dimensions</i>	<i>Regional n = 33</i>	<i>International n = 26</i>	<i>Test</i>
Sales force	3.29	3.85	*
Advertising	2.82	2.58	–
Communication	3.36	3.42	–
Sales promotion	3.00	3.42	–
Marketing differentiation average	3.11	3.32	–

Note: \*  $p < 0.05$ .

### 4.3 Results for the cost domination strategy

Table 7 shows that the cost domination strategy is significantly influenced by internationalisation ( $p < 0.05$ ). More specifically, the importance of low costs (an additional item) was highly affected by internationalisation ( $p < 0.001$ ). Many competitive dimensions associated with the cost strategy were also significantly different. There was only one competitive strategy, 'Investment in new equipment', that was not significantly different.

**Table 7** The results of the cost domination strategy

<i>Competitive dimensions</i>	<i>Regional n = 33</i>	<i>International n = 26</i>	<i>Test</i>
Search for low costs	3.31	4.00	*
Cost control	4.21	4.54	**
Innovative production procedures	2.90	3.65	**
Investment in new equipment	3.44	3.81	–
Reduction of direct costs	3.56	4.15	**
Minimisation of indirect costs	3.65	4.12	*
Maximum use of production capacities	3.82	4.31	*
Importance of low costs	2.90	3.86	***
Low-cost strategy average	3.21	3.56	*

Notes: \*  $p < 0.05$ .

\*\*  $p < 0.025$ .

\*\*\*  $p < 0.001$ .

## 5 Interpreting the results

The first important result is already relatively well-known (Saporta, 1986; Boyer, 1994): international SMEs follow more marked concentration strategies than regional SMEs. More than merely a concentration on a segment of the market, it is a concentration strategy on a specific product. This concentration strategy is accompanied by a product differentiation strategy.<sup>4</sup> In this context, the technology of the product and R&D play more important roles than those in regional SMEs.

Paradoxically, however, the importance placed on product innovation is barely different, regardless of the geographical range of the market. How can we interpret this apparent contradiction? The significant difference obtained for R&D is in line with the results of the study by Conus (1993), who highlighted a positive relationship between the share of turnover made abroad and the amount of investment in R&D. Conus concluded that SMEs that export innovate more in terms of product than local SMEs. This boils down to reducing product innovation to quantitative elements (R&D budget). This restrictive conception is in opposition with a much wider conception of product innovation, based on much more qualitative elements, such as the addition of extra services. This would explain why product innovation was not significantly different between the different geographical ranges of the market when we interviewed the owners (they may have a more or less broad acceptance of this concept).

Whatever the case, it seems clear that product technology and R&D are the competitive dimensions that should be analysed not in an isolated manner, but placed in the much broader context of product differentiation strategy. Within this framework, these dimensions play a part in the differentiation effort demanded by international markets (in comparison with regional markets). They are not, however, the only sources of product differentiation. Product quality can thus also be considered as another relevant competitive position, more significant even. This leads us to put into perspective the considerable importance given to product innovation when SMEs internationalise. Reestablishing this perspective is further accentuated by the results obtained for cost strategy.

Whereas in previous research the emphasis was placed essentially on the concentration (Saporta, 1986) and/or differentiation strategy (Chang and Grub, 1992; Lefebvre *et al.*, 1993), the most original result of this research was the considerable pressure exerted by the international environment on the cost strategies of SMEs. It appears quite clear that the owners of international SMEs place much more importance in the various competitive dimensions concerning production costs than the owners of regional SMEs do. As before, innovation in terms of production processes is more than merely an autonomous dimension. It seems to be part of the more general framework of a low-cost strategy.

The importance of production costs, which has been little highlighted in previous research, appears to be one of the main constraints faced by the owners of SME involved in international markets. At the same time, however, they must make particular efforts in the realm of product differentiation. Product technology, R&D and innovation in terms of production procedures thus seem to be elements of which the strategy is composed, amongst other, equally important, competitive dimensions (product specialisation, cost control and so on), if not the most important (product quality).

It is thus possible to consider that Porter's (1980) theory has been validated, when he states that it is not necessary to choose between a differentiation strategy and a cost domination strategy when the target is limited. Exposure to international markets obliges the owners of SMEs to make efforts at the level of both differentiation factors and cost minimisation factors. These efforts are accompanied by a concentration strategy that is much more marked than in regional SMEs, essentially because the product specialisation is all the more extreme. These are the same conclusions as those drawn by Moon and Peery (1997, p.14), who state that "the success of international SME is based on their ability to combine both a cost domination strategy and a product differentiation strategy".

Finally, it should be noted that, in the context of this global strategy, marketing differentiation was not significantly different. Only the sales force stood out as being more important for international SMEs. This is a result that is already well known: in SMEs, the internationalisation of the market generally results in creating an export department and, thus, in hiring a commercial executive.

## **6 Conclusion: input, limits and areas for further research**

The aim of this research was to study the effect of internationalisation on the competitive strategies of SMEs. The empirical results, based on the *strategic fit* theory, obtained from 59 SMEs show that international SMEs are confronted with greater competitive demands than regional SMEs. These demands are in terms of both costs and product specialisation.

R&D and product technology thus play important roles in the context of differentiation strategy, whereas innovation in production processes plays a similar role for cost strategy. The quality of the product seems to be one of the decisive elements of cost strategy. Generally speaking, international SMEs follow a multidimensional strategy in which they include their efforts in innovation, marketing and cost control.

These results must nevertheless be put into perspective, firstly in relation to the survey method. In an SME context, it seemed more relevant to us, as a means of measuring competitive strategy, to interview the owner on the importance he gives to competitive dimensions, rather than seek to quantify them in relation to 'objective' indicators. This thus gives a rather particular view of the competitive position, as the owner himself sees it. In future research, a change of method, using more 'objective' indicators, would make it possible to confirm or not the results obtained here.<sup>5</sup>

The second limitation comes from the sectoral heterogeneity of the sample. It is effectively widely admitted that sector has an influence on the internationalisation of companies. In the relationship between internationalisation and competitive strategy, there may thus be an effect caused by the sector of activity that only a single-sector study would make it possible to eliminate. It is possible that the relationships highlighted in this study are based on underlying industrial logic that is difficult to specify through the lack of a more targeted sample. It would thus be valid, in the future, to restudy the question using the same research methodology, applied only to a particular sector of activity.

The third limitation comes from the associations made between the competitive dimensions and the competitive strategies. This is a classification made *a priori*, in relation to previous research, and which may be criticised. For example, R&D can have applications in concentration strategy (thanks to a company's R&D, it becomes possible to manufacture a single product with high added value), in product differentiation strategy (the R&D makes it possible to have different products) and in cost strategy (the R&D makes it possible to innovate in terms of production processes and thus lower costs).

Finally, although the geographical scope of the market does indeed have an effect on an SME's competitive strategy, it would be particularly interesting to do the same comparative analysis with a sample of large-sized companies, in order to show in a more precise manner the specificities associated with small company size. Along the same lines, for the large-sized companies, the specialisation induced by internationalisation seems to occur more at the level of the *Corporate Strategy* (Markides, 1995), with transfers of activity very different from the original sector and buy-outs of divisions in similar sectors, than of the '*business strategy*'. The emphasis is then placed on the development of products, brands and worldwide distribution networks, all of which are phenomena that seem less relevant for small-sized companies.

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## Notes

- 1 Campbell-Hunt (2000) identifies four approaches from Porter's original works: the 'taxonomic' interpretation, the 'empirical' interpretation, the 'nominalist' interpretation and the 'dimensionalist' interpretation.
- 2 Given that the subject is SME, region is considered more appropriate than nation.
- 3 The reliability and convergent validity of the measurement scales for the three competitive strategies were tested and validated.
- 4 These results are comparable with those obtained by Chang and Grub (1992).
- 5 It should be noted that the results of the study by Conus (1993), showing a relationship between R&D budget and the share of foreign turnover, correspond to those obtained in this survey (the importance of R&D being significantly different depending on the geographical extent of the market).