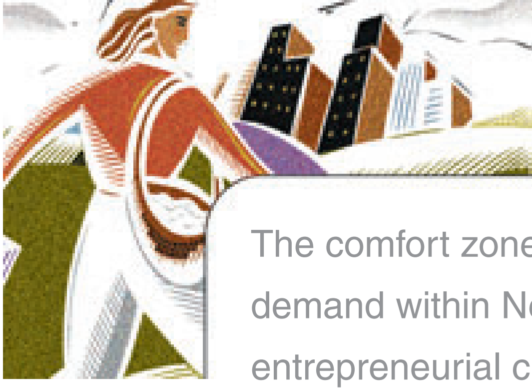
Encouraging more

It is paradoxical that while openness to international experience is well incorporated in the New Zealand psyche at an individual level, an insular attitude often prevails at the enterprise level. This is particularly true for small- and medium-sized enterprises (SMEs). By any standards, the involvement of New Zealand SMEs in international markets is limited.

SMEs to take their Big OE

BY EUGENE BOWEN,
NIGEL HAWORTH AND
HEATHER WILSON

Based on a favourable definition of firms employing up to 100 staff, approximately 2.5 per cent of all eligible New Zealand SMEs are involved in exporting (calculated from figures supplied in Ministry of Commerce, 2000, and Anderson, 1999). This figure is comparatively low. For example, five to 10 per cent of Australian SMEs are involved in export markets based on the same employment definition (OECD, 1997). Although other OECD nations employ different employment definitions of SMEs, the roughly comparable data indicates that New Zealand is bottom of the SME exporting scale. New Zealand is dependent on a very small number of firms for its export earnings, with estimates ranging from 80 per cent of all earnings due to 33 firms (Anderson, 1999) to 133 firms accounting for 60 per cent of our merchandise trade (Trade NZ, 2001). The



The comfort zone presented by currently buoyant domestic demand within New Zealand is possibly diverting the entrepreneurial creativity we need to grow in overseas markets

Global Entrepreneurship Monitor (GEM) surveys show that 50 per cent of New Zealand businesses employ fewer than six people, operate in the service sector and focus exclusively on servicing the Auckland market (Frederick and Carswell, 2001).

These figures have been the subject of comment in policy-making circles, academic research and business networks for a decade or more. They take on added significance, however, in an era in which international trade and investment openness are the guiding principles of government and business thinking and in which the capacity of enterprises to take advantage of openness is an increasingly pressing concern. The concern is all the greater in small, open economies such as New Zealand's where, in many cases, the only way for SMEs to grow is by exploiting international opportunities.

As evidenced by the increasing focus on export of most of New Zealand's "growth agencies", the development of markets outside New Zealand offers the largest growth opportunities to New Zealand SMEs. At the same time, the comfort zone presented by currently buoyant domestic demand within New Zealand is possibly diverting the entrepreneurial creativity we need to grow in overseas markets. If New Zealand firms are not growing through international activities, are they growing at all?

To use an analogy, under the Anglo-Saxon wealth creation model, New Zealand firms travel the wealth-creation road in the family car, with room for the family but few others. Contrast this with wealth creation in America, where large numbers of people are engaged, participate and benefit from the creation and growth of companies. To extend the analogy, the US travels to wealth creation in a bus.

Why do so many New Zealand firms limit themselves in terms of comparatively modest personal goals? We need to know more about the drivers of wealth creation and why more New Zealand entrepreneurs are not keen to take as many people with them as possible on the road to success.

In this article, we review the studies on New Zealand SME internationalisation and aggregate their findings to determine what we already know. We then couch this in a review of the policies in place to promote SME internationalisation. We find that an incomplete understanding is driving New Zealand's policy support framework. We argue that effective policy intervention to encourage firm-level overseas experience (OE) presupposes a thorough understanding of the New Zealand SME.

WHAT HAVE WE LEARNED SO FAR?

Macro-level data provided by the Ministry for Economic Development (MED) are useful in defining parameters of size, sector, international growth, performance and survival, plus trends (e.g. MED, 2002). But we should be clear on the limitations of such data. They represent only a first step in understanding the SME. For example, do we really know what our 200,000-plus SMEs look like? Do we understand why some firms survive, grow and become internationally competitive and some do not? Effective policy must be informed by answers to such questions. To ascertain whether we already have these answers, we reviewed micro studies of SME internationalisation conducted in New Zealand over the past decade or so.

One of the most pervasive themes in the New Zealand studies is the attempt to categorise SMEs by their passive or active approach to internationalisation (e.g. McDougall, 1991; Caughey and Chetty, 1994; Chetty and Hamilton, 1996; Gray, 1997; Chetty and Blankenburg Holm, 2000; Dean, Mengüç and Myers, 2000). It appears that the more active firms are more likely to be service firms than merchandise firms (Chadee and Mattsson, 1998) and are already exporting successfully (Dean et al., 2000). They have taken the initiative independently (Caughey and Chetty, 1994; Chetty and Hamilton, 1996) and have, in some cases, devoted resources to the collection of market research (McDougall, 1991). On the other hand, passive SMEs seem to require some sort of push into the international marketplace (Caughey and Chetty, 1994) and tend to conduct little or no market research on the nature and/or scope of the opportunity that has been presented to them (McDougall, 1991).

Attempts to identify the characteristics of the more successful international firms have led to a focus on performance criteria (Chetty and Hamilton, 1996; Dean et al., 2000). It appears that low performers, in terms of export sales, perceive significantly higher export barriers, resulting in a lack of focus on, and commitment to, foreign markets (Dean et al., 2000). These low-exporting firms continue to focus their development efforts on the domestic market. On the other hand, high performers' concerns relate more to managing foreign exchange issues (Dean et al., 2000). But Chetty and Hamilton (1996) point out that the financial returns from exporting can be poor. They found that firms exhibiting pro-export attitudes hold little or no hard information about their export prospects, despite continuing to make higher financial commitments to export development.

Theoretical opinion is divided on whether firms need to develop a strong domestic base of operations before developing an international focus or whether early internationalisation is a better strategic approach. Studies of New Zealand SMEs have found that rapid internationalisation is often supported by the firm's international relationships (Coviello and Munro, 1997; Chetty and Blankenburg Holm, 2000) and that competitors or horizontal relationships can be an important source of reputation and organisational resources for the international firm (Chetty and Wilson, 2003). Firms that are slower to develop their international operations sometimes struggle or shy away from the large orders that international sales represent (Chetty and Blankenburg Holm, 2000). These firms feel they lack important resources and, in contrast to their early international counterparts, may focus on the use of vertical or social relations to supplement the human resources in the firm (Chetty and Wilson, 2003).

There appears to be the perception that international growth comes at the expense of the owner's control of the SME. For example, Caughey and Chetty (1994) found that the principal difference between their sample of exporting and non-exporting firms was that non-exporters had a desire to remain small in size. Coviello and Munro (1997) observed that the SMEs' activities were under the control of other firms during internationalisation. Only with increasing experience did the SME seek to reassert control. Campbell-Hunt et al. (2001), in their study of larger SMEs, found that "when the needs of controlling owners diverged from the capital needs of the business, competitive development was impeded" (p. 37).

So, can we summarise the high-potential SME as an active, early-international, high-level exporter unconcerned about issues of control? The above studies would seem to point us in this direction, but it would be naïve to combine the results from such diverse studies of diverse SMEs in diverse industries/sectors. This body of information, while impressive, is inconclusive about policy development that is seeking to determine the characteristics and motivations of New Zealand SMEs with international potential. Quite simply, we cannot distinguish internationally oriented SMEs on the basis of simple macro data and/or single aggregated observations (Chell, Haworth and Brearly, 1991).

We need to focus our attention on the simultaneous consideration of a number of interacting characteristics. Clearly there is a complex relationship between growth, internationalisation, inter-organisational relationships and the ownership and control of the SME. If we factor in the multiple motivations for starting SMEs (Lindsay, Wilson, Simpson and Lamm, 2001), the diverse products and services offered, the range of experiences brought to bear on the venture and the prevailing and impending economic climates in different markets, then we begin to allow for the

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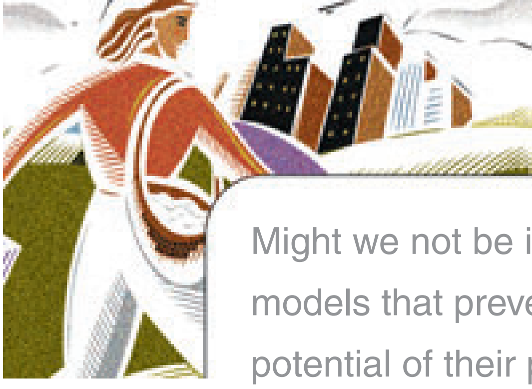


Might we not be influencing entrepreneurs to follow models that prevent the full maximisation of the potential of their product or service offering?

heterogeneity of SMEs in terms of their international objectives and their resulting support needs.

HOW DO WE PROMOTE FIRM-LEVEL OE?

Added weight is given to this argument by the fact that we do not understand the SME sector in terms of its response to existing policy initiatives. Despite an impressively diverse range of opportunities for management capacity building and supporting international growth, New Zealand SMEs are either unaware of their development needs and/or the assistance available to meet these needs (Wilson and Haworth, 2001). Alternatively, economic, structural and/or attitudinal/perception obstacles prevent SMEs from taking advantage of available support (Kerr and McDougall, 1999; Kearney, 1998; Gibb, 1997).

A recent review of the BIZ Programme found that only 3.8 per cent of 800 firms of less than 20 employees had used BIZ services (BERL-NRB-Massey Consortium, 2000). Many of the policy issues identified in this review are the same as those identified 15 years ago: availability of adequate training, low take-up of support services, no significant finance gap, and no real sense of identity for small businesses (BERL-NRB-Massey Consortium, 2000; Cameron, Massey and Tweed, 1997; Bollard, 1988). Indeed, the challenges facing SMEs have been chronicled over many years in academic research, reports from business support agencies and the work of both local and national government. Policymakers have not been short of suggestions, insights and analyses upon which to base policy development. This begs the question: has the evolving policy environment performed better over the years as it grapples with SME support issues?

While it is easy to focus on the demand constraints preventing the effective delivery of policy, we also need to focus on the supply constraints. How does the New Zealand government deliver assistance? The contemporary channel strategy of the business development agencies is usually a combination of websites, call centres (0800) and account management, reflecting progressive involvement with companies. Attempts by government to categorise companies at the enterprise level for the delivery of assistance have focused on company evolution, with the explicit assumption that companies move through a phase of supplying the domestic market before moving offshore. For example, the Government Business Assistance Search facility on various government websites contains a drop-down menu of categories to define the stage of business evolution of website visitors ("My Business"). These categories run from "Pre Start-up" through "Established" to "Export Business", with a separate, presumably subjective category for "High Growth". Companies are then asked to address their growth concerns ("Problems", of which the closest category to internationalisation is described as "Export Opportunities").

The unilinearity of these assumptions is underlined when the same problem is addressed from the perspective of different stages of company evolution. There is one internationalisation search result (a Biz Growth scheme) for "start-up" and "fast-growth" companies, three for companies in "Early Development", 16 for "Established" companies and 22 for companies already "Exporting". In other words, the assumption is that risk in business development is better initially managed closer to home, in the domestic market, and internationalisation takes place on a grounding in the domestic New Zealand business environment. In making these assumptions, however, might we not be influencing entrepreneurs to follow models that prevent the full maximisation of the potential of their product or service offering?

Both the websites and call centres rely on SMEs taking the initiative and, as indicated above, this is not resulting in engagement with a sufficient number of New Zealand SMEs. Requiring SMEs to be the proactive partner in a policy relationship focusing on international growth is unrealistic when SMEs themselves have an incomplete understanding of the issues and of the diversity of available solutions.

The origins of the move away from the advisor-based Business Development Boards to channel-based delivery lie in concerns about resource efficiency, reduction of (delivery) costs and ease of access. Self-analysis and SME proactivity in the use of the internet and in seeking access to the range of different forms of assistance have replaced a more interactive and analytical relationship between SMEs and government. The proliferation of providers and schemes has increased the complexity of the task confronting SMEs seeking assistance to grow internationally.

A more proactive approach to policy delivery is the Fast Forward Programme. It has been operating for about a year and the policy framework is evolving as the programme develops. The programme specifically targets "high-growth" companies and, in most cases, these firms are already identified as successful and the programme aims to accelerate their growth. While the programme focuses on business growth rather than internationalisation, most target firms are already exporting and, by implication, most future growth will be achieved by exports.

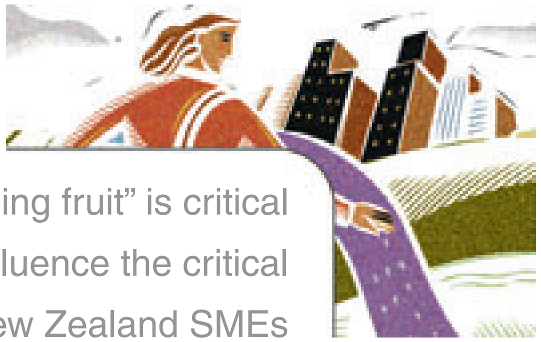
Currently, 25 business development advisors, selected for their business experience and potential to contribute holistically to company growth, work alongside companies and advise them where development is needed, point them to specific sources of assistance and help fund the acquisition of specialist help. The programme's objective is "to treble foreign exchange within five years". The current target is to involve 300 companies.

The individual-level OE literature tells us that independent and enterprising individuals will often initiate their own OE, fund the experience themselves and fulfil diverse goals (Inkson, Arthur, Pringle and Barry, 1997). The parallels can be drawn at the firm level. In any economy, strategic and involved firms take a proactive approach to their own international strategy development (Major and Cordey-Hayes, 2000). In the present New Zealand policy environment, it can be argued that these firms are the targets of the Fast Forward initiative by Industry New Zealand, which aims to remove specific growth impediments to established companies with a world-class product and an identified opportunity. The harder task is to identify latent achievers from among companies not yet aware of their international potential. Such companies may be analogous to the expatriate in the OE literature, where there is a preference for the structure and security of an expatriate assignment to gain international exposure (Inkson et al., 1997; Inkson, Thomas and Barry, 1999). We believe an entire subset of firms have the desire, either implicitly or explicitly, to undertake their OE, but they require some assistance, structure and encouragement to both initiate the process and benefit from the outcomes (Major and Cordey-Hayes, 2000). We have to ask: who is targeting these firms?

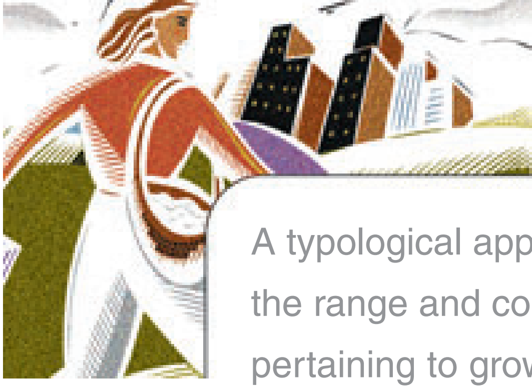
WHAT DO WE NEED TO KNOW?

We need a means of extending our reach beyond the firms targeted by existing programmes. An extension of focus beyond the "low-hanging fruit" is critical if policy intervention is to significantly influence the critical mass of internationally successful New Zealand SMEs. We also need a systematic means of evaluating the contribution of existing programmes. We need to ensure that policy is adding to the stock of internationally competitive New Zealand SMEs and not just simply encouraging behaviour that may have occurred in its absence.

While arguments can be made that, for example, the Fast Forward programme may have a multiplier effect on the international activities of the targeted firms, we would contend that, without appropriate measurement and evaluation mechanisms, this argument lacks validity. For example, without a control group, the effectiveness of the policy intervention remains unmeasured. More generally,



An extension of focus beyond the "low-hanging fruit" is critical if policy intervention is to significantly influence the critical mass of internationally successful New Zealand SMEs



A typological approach would allow us to explore both the range and complexity of explanatory variables pertaining to growth and internationalisation

New Zealand's approach to policy measurement and evaluation is historically inadequate or incomplete. For example, a focus on the number of users and level of satisfaction of firms in the BIZ Programme (Andrews, Heinemann, Massey, Tweed and Whyte, 2000) is insufficient to give an indication of whether the policy intervention is effective. The measurement and evaluation mechanisms developed to assess the SME support offered via the Business Development Boards were not applied or were not applied consistently (Locke, 2000).

The identification of latent achievers and the evaluation and measurement of targeted assistance programmes can be made easy by the presence of a strongly derived New Zealand SME typology. The development of such a typology would allow us to engage in a meaningful categorisation of New Zealand SME types, needs and behaviours. A typological approach would allow us to explore both the range and complexity of explanatory variables pertaining to growth and internationalisation, while overcoming the drawbacks of simple linear explanations or contingency explanations. Simple linear models result in inappropriate or ineffective policy interventions, while contingency models lead to the development of an excessive and essentially unmanageable number of policy interventions.

A number of New Zealand studies have referred to typologies of small business, but only one was derived from systematic empirical study and none has been used for analytical and policy purposes. For example, Gray (1997) classifies international business managers as "achievers", "strivers" or "pessimists", although he acknowledges his focus on the individual needs to be expanded to account for differences based on market environments, firm structures and products/services offered. In addition, this typology confused ownership and agency perspectives, with respondents comprising owner-operators of very small enterprises and marketing managers in larger enterprises. Cameron and Massey (1999) refer to "Mum and Dad", "high pay-off stable" and "rapid take-off" categorisations. The same authors, in a later work, classify entrepreneurial businesses according to the type of journey undertaken, namely the business trip, family and friends, working holiday and getting away from it all (Cameron and Massey, 2002). Recently, Myers and Inkson (2003) developed an individual OE typology, classifying participants in their study as "cosmopolitans", "returners", "boundaryless careerists", "alternative tourists", "stimulation seekers" and "Londoners". The categorisations of these latter studies may appear prophetic, given our objective of encouraging more New Zealand SMEs to take their big OE, but it is important to avoid defaulting to the use of already-established typologies that have been developed in another context and another time.

Nevertheless, we can learn lessons from the development of typologies elsewhere. For example, Chell et al. (1991) warn us that we may not be able to clearly categorise firms according to developed typologies and that our search should focus on identifying both necessary and sufficient characteristics, while allowing for movement between categories. Julien, Joyal, Deshaies and Ramangalahy (1997), in their typology development process, found three different groups of SME exporters. These were termed professional exporters, transitional exporters and opportunist exporters. The authors went on to highlight how the firms' export support needs varied. But this study falls into the trap of focusing on one dimension of the SME – its international strategy.

Acs, Carlsson and Karlsson (1999) call for researchers, practitioners and policymakers to not only focus on the characteristics, skills, competencies and resources of the entrepreneur, but to also look at the same factors in terms of entrepreneurs' organisations. Storey (1994) highlights how the strategy of the firm, the characteristics of the firm itself and the resources of the entrepreneur combine to promote rapid growth. He reviews a number of studies in an attempt to distinguish more dynamic enterprises. In terms of strategy, he observed a positive relationship between the use of external equity, the degree of technological sophistication, the market positioning, the development of new products, the recruitment of professional management and the growth of the firm. In terms of the firm's characteristics, the age, legal form, location and size were positively related to growth, although the direction of the cause and the effect was not clear. In relation to the entrepreneur's resources, age, number of founders and positive motivating forces to establish the firm were positively related to growth. An unemployment push to start the firm was negatively related to growth.

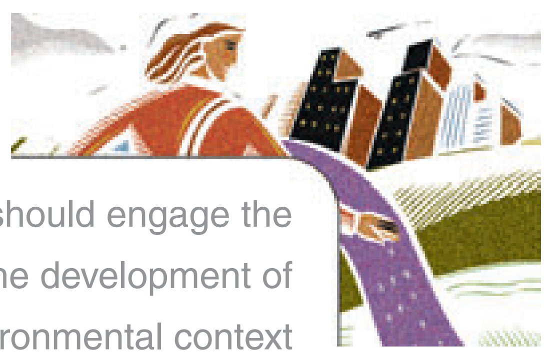
WHERE TO FROM HERE?

Following Acs et al. (1999) and Storey (1994) above, we believe that any typology development exercise should engage with the individual, or SME owner, critical decision points in the development of the firm, the firm and its relationships, and the environmental context. The individual unit of analysis is an essential building block within an integrated explanatory model. In this context, we are able to draw on an extensive literature on entrepreneurship and the small business, originating primarily from psychology and sociology, in order to understand the qualities that emerge in the interaction of self and environment. It is recognised that these qualities owe much to socialisation in and outside the family. They build on experience gained in early life. They reflect aspects of social background. They comprise complex elements of the broad culture in which individuals are brought up and in which they live. They are clarified in early work experience. They are gendered. They may have components defined by ethnicity. In sum, they constitute the union of psychological formation and accrued social capital.

With an understanding of the individual, we can then approach the individual's decision-making. Observation suggests that domestically based businesses will at some stage face the decision whether to internationalise operations or be focused on the domestic market. The identification of the critical moments associated with the decision to internationalise (or not) allows the impact of four variables – self, information flows and analysis, the firm's internal context, and decision-making – to be analysed. Even within small firms with a flat management structure, there is the potential for key decisions to be influenced either formally or informally by the wider team in the firm or the network external to the firm. This may include, for example, financial partners, family members, key employees, customers, suppliers and/or distributors. The influence on decision-making may be both formal (e.g. in terms of constitutional arrangements) and informal (e.g. based on friendships and long-term commitments). This is often a reflection of the founder's personal style and perspectives. In turn, an effect of the formation of self.

Shifting up one layer of analysis leads us to consider the firm and its relationships. A particularly useful framework for investigating the setting would appear to be the market, hierarchy and network distinctions. The market and hierarchical forms of transactions are fundamental to understanding the issues of control, risk and timing in internationalisation. We also need to take account of "multilateral" influences on the process or not of internationalisation, or networks. This conceptualisation of the setting allows us to explore international organisational configurations.

Finally, the environment is inevitably complex and multi-dimensional. A schematic model of the environment might include three spatial dimensions: global, regional and domestic (although, of course, the latter is open to further disassembly). Cutting across the spatial dimensions are industry and sectoral perspectives. Across these again are found contending organisational perspectives. Within these spatial, industry/sectoral and organisational divisions, numerous intersecting processes can be identified. Five factors that might be particularly important for the internationalising business can be



Any typology development exercise should engage the SME owner, critical decision points in the development of the firm, its relationships and the environmental context identified: the business cycle; domestic, regional and global trade policies; regulatory regimes (internationally and domestically); domestic, regional, industry and/or sectoral support mechanisms for internationalisation; and the domestic economic environment.

This approach responds to the call by a number of researchers who have been critical of the almost unanimous use of the firm level of analysis when conducting research in the area of international business. For example, Parker (1996) states: "As individual, autonomous organisations are evolving into complex global networks, the organisation as a unit of analysis is no longer the most useful way to study them" (p. 488). In addition, Boddewyn (1997) points out that "… if international business is an 'institution' … it would seem perfectly appropriate to study it at various levels, as is done with other institutions" (p. 60). Neither of the aforementioned authors call for the replacement of the firm with another single and, perhaps, inappropriate level of analysis. Instead, they advocate the need to incorporate multi-level perspectives in future research designs. The policy implications of such an approach should not be underestimated. A more effective understanding of SME internationalisation will bear fruit in policy prescriptions designed to increase global trade, improve export performance and efficiency and provide development support to domestic SMEs.

An improvement in the international performance of New Zealand's SMEs is a *sine qua non* for future economic growth. Relatively few SMEs are taking advantage of international market opportunities. The majority are structured solely to meet domestic demand. Moreover, many SMEs with a latent potential to internationalise their activities choose not to do so, or are unaware of that potential. We do not clearly understand why this is so. It is particularly puzzling that the socially embedded and self-reinforcing elements of individual OE (Myers and Inkson, 2003), which encourage New Zealand individuals to expose themselves to risks, new experiences, knowledge development and personal growth, are not replicated at the level of the firm.

We note that Australia is struggling with the same issue and has just completed research on identifying "the untapped potential" in order to grow its "exporter community" (Austrade, 2002, p. 29). Current New Zealand policy is informed by research on SMEs that is limited by its emphasis on macro-level or simple aggregated micro-level data. The work required to understand why many New Zealand's SMEs do not achieve their international potential is still to be done. Quite simply, we are not yet in a position to be able to identify and encourage New Zealand SMEs to take their big OE.

However, completed successfully, a New Zealand SME typology, based on systematic and comprehensive research, will result in two major national contributions. One, it will allow more effective targeting of business support and development policies. Particularly, it will complement the current policy focus on successful exporters with measures designed to identify and mobilise SMEs on the cusp of internationalisation. Two, it will enable the identification of appropriate control groups, which will, in turn, elevate claims about the effectiveness of policy interventions from the political to the factual.

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SUGGESTED FURTHER READING

Readers interested in the New Zealand SME context could read:

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For more information on export typologies or typology development see:

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