Strategy Development in Globalising Markets

The Case of Norwegian Small and Medium Sized Firms

by
Carl Arthur Solberg

A Thesis Submitted for the
Degree of Doctor of Philosophy

Department of Marketing
University of Strathclyde, Glasgow

Sandvika, April, 1994

UNIVERSITY OF STRATHCLYDE

THESIS ABSTRACT FORM

FULL NAME: Solberg, Carl Arthur

DEPARTMENT: Department of Marketing

DEGREE FOR WHICH SUBMITTED: Doctor of Philosophy

TITLE OF THESIS: Strategy Development in Globalising Markets: The Case of Small and Medium Sized Norwegian Firms.

ABSTRACT

This study develops and tests a model, the "Nine Strategic Windows". This is a matrix accounting for the company's global environment and its ability to respond to this environment. The purpose of the model is to aid company management in its search for strategic direction in international markets.

The model is tested through 22 case studies of Norwegian SMBs and small and medium sized SBUs of larger concerns in two industries: ship equipment and construction deemed to be located at different positions in the model. The main conclusions are:

- It is indeed possible for SMBs to operate successfully in globalising markets, although SBUs seem to be more prone to succeed.

- In a multilocal market environment companies tend to consolidate their operations. In potentially global markets companies take a more expansionnist stance partly to counter competitive pressure partly to capitalise on market opportunities offered. In global markets companies tend to seek strategic alliances, by finding either a financial partner or a partner offering marketing networks.

The model endeavours to capture both the competitive and the learning aspects of international strategy development, and concludes with a normative strategy recommendation based on the lessons learnt from both the internationalisation school and the "global management school".

The "Nine Strategic Windows" distinguishes itself from other models (for instance those of Nordström and Vahlne, 1985; Johanson and Mattson, 1986; Porter, 1986; Rugman and Verbeke, 1993) in that it not only classifies companies in different strategic positions, but actually endeavours to identify the main the strategic thrusts of the same companies. Another important feature is that the model encompasses the situation of small to medium sized firms operating in globalising markets. The fate of this category of firms has previously not been the object of study relative to global or globalising markets.

DATE OF DEPOSIT	STRATHCLYDE REF.	BLLD REF.	MORATORIUM EXPIRES

Table of Contents

Preface

My way into academic life has been a slow and erratic one. After graduating in *sciences économiqus* in Switzerland in 1969 and spending ten years of "practical life" - ie. four years at the Norway Trade Council and six years in the petrochemical business, I joined academia in 1982 with a wish to teach "good export practices". In the meantime I had the privilege of editing and contributing the main parts of a textbook in export marketing. This gave me a first glance into the maze of international marketing, which I ever since have wanted to explore further.

So, after a couple of years with the Norwegian School of Management I decided to embark on my first research project: "Pricing and Export Strategies in Norwegian Export Industry" in 1984-85 (Solberg, 1987). At the time I was concerned with the inability of exporters to extract the full price from the market, and also about the complaints by exporting firms about the cost level of Norway. I found among other things that heavy exporters were much less worried about our cost level than those depending less on exporting. Furthermore, I found that elements of the internationalisation process of the "Uppsala School" are valid also in the Norwegian context.

Some years later, based on a survey of some 100 Norwegian exporters, "Successful and Unsuccessful Exporters" was written (Solberg, 1988), where I tried - in a normative manner - to identify success criteria of good exporters. This is of course a field with countless traps, but I think I managed to point at some relations which are worth while considering. The most critical success factor identified in this study was the exporters´ relations with their distributors or partners abroad; a finding that underscores the importance of the work of the IMP group. Based on the same data I also started to investigate how firms responded in their composition of the four Ps to different market environments, analysing the degree of adaptation or standardisation of various marketing mix elements in international marketing ("Adaptation or Standardisation - More than economies of scale and market homogeneity", Solberg, 1989). I found not surprisingly - that both economies of scale and market homogeneity are indeed important determinants in the international marketing mix development. However, and more interestingly, I also found that an even more important role was played by the local representative and the advertising agency. On this basis, there is reason to ask the question whether (Norwegian) exporters let themselves steer by their partners abroad in the development of their export strategies.

From this standpoint the march was not long to enter the discussion of globalisation and its effects on firm strategies. In 1989 I embarked on a two year project entitled "Globalisation of markets of Norway´s manufacting industries; An analysis of Norways manufacturing industries possibilities to meet challenges in an ever more globalised market", partly funded by NORAS (Norges Råd for Anvendt Samfunnsforskning - Norwegian Council for Research in Applied Social Sciences). A terrible title, but my first "real" research project. This project constitutes the starting point of the present doctoral thesis. The rest of the story is written in the thesis text.

There are many people whom I wish to thank at this very moment in my life. First of all Eva, my wife, who encouraged me to take on the task of writing a doctoral thesis. Without her support I would have had a hard time finishing this work. Professor Stephen Young guided me through the first year and a half, and particularly dr. Jim Hamill - who the last two years and a half has encouraged me both morally and professionally - has given me invaluable insights both into different theories of international business and to critical research issues. Finally, my colleagues at the Norwegian School of Management have during the process given me comments and encouragement in a collegial and positive manner.

Høvik, April 1994

List of Tables

List of Figures

Chapter One
Introduction

Chapter One
Introduction

This thesis is about strategic responses of small and medium sized businesses (SMB) to globalisation trends in world markets. Its main thrust is to test a model, the "Nine strategic windows", representing an analytical framework for strategic choice for SMBs in world markets. In order to develop this model, the author has brought in contributions from four different strands of theories: modern international trade, strategic groups, internationalisation process and global management. It consists of two basic dimensions, the industry "globality" and the preparedness of the SMB to respond properly to the challenges posed by this globality. In addition a dynamic factor is included: the speed of the globalisation trends impacting on the industry globality. The model is tested empirically through studies of 22 Norwegian industrial companies - 12 SMBs and 10 small and medium sized SBUs of larger corporations.

The main conclusion from the study is that the findings in essence are consistent with the propositions derived from the model. The normative consequences of the findings are also discussed. Basically this means that the model gives management of SMBs guiding signals in its quest for strategic responses to the globalisation challenge. Another important conclusion is that SMBs may indeed successfully operate in globalising markets, but that independent small and medium sized SBUs of larger concerns seem to be better positioned to operate in a climate of keen international competition. An excerpt of the more detailed conclusions is presented in section 1.2.

1.1 Background

The discussion on globalisation intensified during the 1980´s, both in academic circles and in the business world. Levitt´s now classic article in Harvard Business Review (1983), sparked off a long range of reactions among academics (Kotler, 1984; Boddewyn, Soehl and Piccard-1986; Porter, 1986; Wind&Douglas, 1987; Usunier, 1990; Hamill, 1992). Levitt´s conclusion was that companies operating in increasingly homogeneous markets will be forced to standardise production and marketing programs globally. This strategy, he asserts, is bound to give the companies economies of scale and a cost leadership position in the industry. Some companies have tried out his theories, although not always with a "happy ending" (Parker Pen, see Lipman in Wall Street Journal, May 1988). Even though Levitt's eloquent rhetoric is partly built on false assumptions (on the globalised consumer, on the importance of economies of scale of long, standardised production runs), it should be credited for the fact that it started an important discussion on the effects of the globalisation trends on company strategy. Much of this discussion has centered on the responses of large multinational enterprises (MNE), whereas small and medium sized businesses (SMB) have received much less attention.

Observing "real life" in the market place, there is a clear trend toward globalisation of industries. The increasing number of cross border acquisitions and strategic alliances are signs of intensified global cooperation between firms. The development of the Single Market in Europe and the European Economic Area, together with the efforts to create a North American single market is further evidence of integrating economic trends. Leontiades (1986) introduces the term globalisation signals which can be observed in a number of industries, among which he names international price sensititvity, cross border alliances and acquisitions, customer demands for global presence and increased foreign competition. George Yip in his recent book, "Total Global Strategy" (1992), talks about globalisation drivers, dividing them into four categories - market, cost, government and competitive drivers. These are listed in figure 1.1 (we will return to the discussion of globalisation drivers in section 2.2.5).

These developments affect the competitive situation of the individual small and medium sized business (SMB)[1] as well as the multinational enterprise (MNE), and hence, force the individual company to redefine its strategies.

---

[1]The definition of an SMB varies greatly. In the US SMBs are considered to be firms of less than 500 employees, whereas in Norway the threshold is put at 100 employees. In the present study an SMB is defined as a company with less than 500 employees. For a more thorough discussion please refer to section 4.3.

Porter (1986) looks for signals within the firm to identify the causes of globalisation, and observes how firms internationally are configuring their activities in the value chain, and to what extent they coordinate these activities. High level coordination between dispersed activities and concentrated configuration of activities are both signals of a global firm.

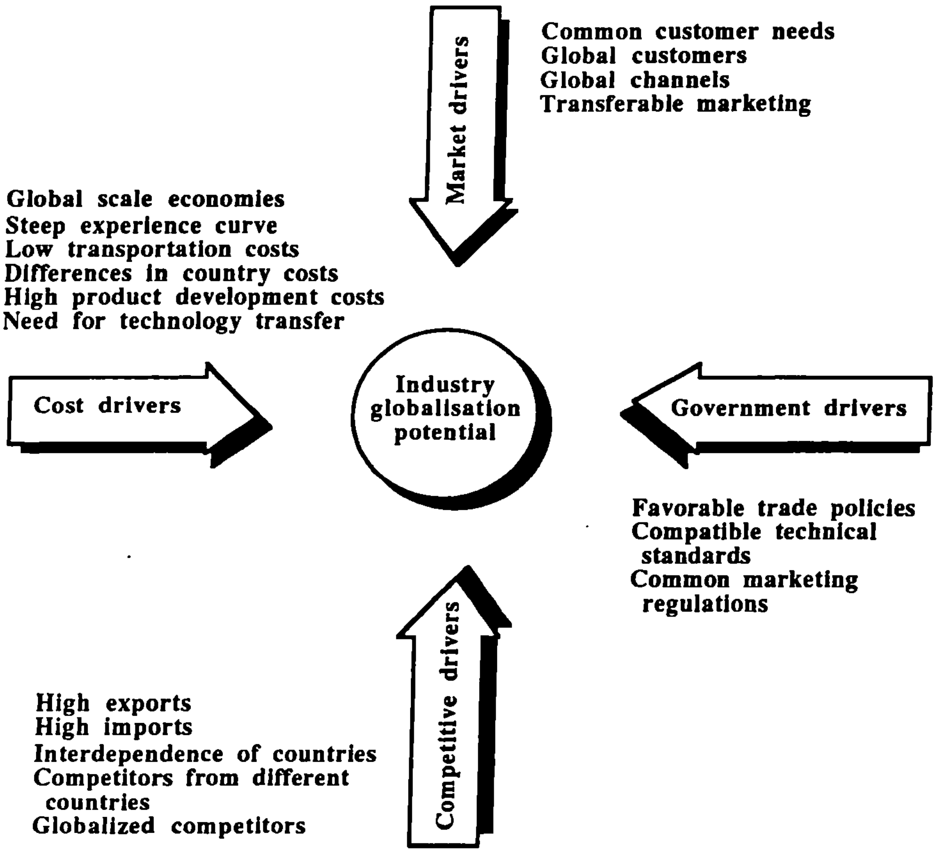

Figure 1.1: Globalisation Signals
Source: Yip, 1992

The critical issue for SMBs seems to be whether this category of firm has the necessary resources both in terms of skills in international management and financial strength to cope with the challenges posed by globalisation. In Norway, we have seen examples of take-over bids from foreign investors, or SMBs selling off their newly acquired know how to foreign licencing partners with a world wide network, because they themselves did not have the necessary resources (management skills and finance) to develop the markets on their own. Table 1.1 gives a non exhaustive list of international acquisitions in Norway during the last decade.

Table 1.1: Selected International Acquisitions in Norway 1980-93

Acquirer	*Acquired company*	*Industry*
ABB	Trallfa Elektrisk Bureau Skeiegruppen	Spray paint robotics Satelite communication Offshore and marine equipment
Alcatel	Kitron	Electronic systems
Ahlström	Norwesco	Electrical fixtures
BPA Bygg	Fagbygg	Contracting
Diasonics	Vingmed Sound	Medical equipment
Phillip Morris	Freia-Marabou	Chocolate/sweets
Hackmann Housewares	Høyang Polaris	Pans, casseroles etc
Kone	Fortuna Mek	Lifts
K2	Madshus	Skis
Monark	Øglænd	Bicycles
Novatel Communication	Simonsen Elektro	Cellular telephones
Schlumberger	Geco	Seismic mapping
Sekko	Norsk Teksnisk Porselen	Technical ceramics
Stora Kopparberg	Sigdal Industrier	Kitchen interiors
Swedish Special Shipyards	Westamarin	Catamarans
Wärtsilä	Trio Wing	Electronic locks
Whessoe	Autronica	Electronic control systems

Source: Næringsdepartementet (Ministry of Industry)

For a small country like Norway with an industry structure consisting mainly of SMBs, this is a key issue in industrial policy. However, contrary to conventional wisdom, size is not necessarily a prerequisite for success in international markets (see for instance Czinkota and Johnston, 1983; Aaby and Slater, 1992). In the Norwegian context, Solberg (1988) has shown that successful exporters are more frequently found among SMBs (average size 400 employees) than among larger companies (800 employees).[2] Such a finding suggests that SMBs may find a role even in a globalising industry and thrive among larger MNEs.

1.2 Purpose and Scope of the Study

The purpose of this thesis is to develop and test a model of strategy development for SMBs in globalising markets - i.e. markets characterised by intensifying international competition[3]. In view of the challenges confronting SMBs in such a market environment, it is increasingly important that academics contribute to the development of analytical frameworks promoting management's understanding of the forces at play, thus improving their ability to devise appropriate strategic responses to these forces. The present thesis is one such contribution.

The research presented shows how SMBs define their strategic responses to the globalisation of the world economy. Also, it analyses SMBs performance in globalising markets and differences between independent SMBs and small and medium sized strategic business units (SBUs) of larger concerns in this respect.

For this purpose the author has drawn on four main strands of literature:

[2]In the same vein, Vikøren (1990) found that more than half of the industrial SMBs in Norway are oriented toward exports, one third of which export more than 20% of their total sales. Furthermore, he found no significant difference in the propensity to export between the smaller companies (less than 20 employees) and the medium sized companies (up to 100 employees). Finally, it was found that the more the company exports, the better its return on investment, and the better its prospects for increased employment. The same trends have been found by Solberg (1987). These results are partly contradicted by Falkenberg (1989), asserting - in a survey of Norwegian exporters - that there is a certain size threshold to be overcome in order to succeed in international operations. The differing opinions most probably stem from the fact that the companies in Vikøren's survey supposedly are concentrating on neighbouring markets (there was no information on markets in the paper). However, the relatively extensive export activities deployed by Norwegian SMBs, even if they are limited to the Nordic arena, constitute an important embryo to developing an international corporate culture, and in this way prepare the companies to take on larger market commitments in a globalising world.

[3]The concept of globalisation will be more thoroughly discussed in section 2.2.5.

1) Different theoretical avenues within international trade and investment place the issues raised in the thesis in a general perspective. Particularly, writings on intraindustry trade and its precursors (Linder 1961), technological gap and product life cycle (Posner, 1966; Hufbauer, and Vernon, 1966), and the economic theory of the firm (starting with Hymer, 1960) give useful insights into the development of MNCs.

2) Industrial organisation (IO) analysing the nature of industry structure, and its later developments into what Porter has termed a "useful tool to consider in strategy formulation" (Porter, 1981, p. 390) form the basis of the understanding of the competitive behaviour of firms. The analysis of entry barriers (Bain, 1956) and more generally mobility barriers (Caves and Porter, 1977) is a key issue in this school of thought. Combining these two (trade theory and IO) makes a useful starting point for the discussion of industry structure in a globalising competitive environment. The study of globalisation has therefore to analyse both the international industry structure and the underlying factors leading to this structure.

3) Behavioural theories explain international involvement of firms as a result of incremental experience in international markets - the so called Uppsala School (Johanson and Vahlne, 1977 and 1990). Closely related to this school of thought is the export literature, seeking to identify success factors in international marketing (i.e. Cavusgil, 1983; Bilkey, 1984). Much of the research here is based on firms with limited experience and knowledge of international business operations and is particularly relevant to the issues raised in this thesis.

4) The ultimate stage of internationalisation is the occurence of the global firm (Ohmae, 1985, Porter, 1986, Hamel and Prahalad, 1986) which uses the global market place as its playground. Even though this second string of writings - which we will term the global management school - concerns itself almost exclusively with large multinationals, it gives us many useful leads applicable to the multinational SMBs.

The main contribution of this thesis is in the author's opinion the development and the testing of a model integrating all these strands of literature. The model, "Nine Strategic Windows", is a dichotomous model where the two dimensions are the degree of global industry structure and the ability of the firm to compete in globalising markets. The main idea behind the propositions is that management should take account of both the "globality" of the competitive climate and market environment and the firm's abilities or preparedness to respond to this globality when formulating its strategy. Also, the speed with which the industry globalises is an important determinant to the strategy formulation of the firm. This model gives management nine basic strategic alternatives to develop the firm internationally. These nine strategies vary from "Stay at home" to "Strengthen your global position". One other proposition is that small and medium sized strategic business units (SBUs) of larger firms are better equipped to develop strategies addressing the globalisation trends than are independent SMBs.

To research these issues, case analyses of 22 Norwegian SMBs (independent) and small and medium sized SBUs of larger concerns were carried out, where the object of study was the international (marketing) strategies of the case companies and the factors (globality of the industry and company preparedness) impacting on this process. The companies were drawn from two distinct industry sectors: ship equipment (10 companies) and construction industry (12 companies), deemed to be represented at different locations in a "local-global" continuum.

An important feature of the study was the two-step longitudinal approach to analyse the strategy development of the firms:

1. In 1989/90 each firm was analysed as to its preparedness to internationalise and its competitive situation (globality). Based on this analysis, a discussion about strategic development of the firm was conducted with firm management, and recommendations were given as to strategic orientation of the firm in international markets.

2. In 1993, the firms were approached a second time in order to assess the strategies which actually were pursued by management during this period. Furthermore, the ensuing results in terms of financial and export performance and in terms of company independence were analysed.

1.3 Main conclusions

This section will briefly review the main conclusions from the study.

The main conclusion of the study is that the findings are largely consistent with advanced propositions. Of the 22 classified cases about 3/4 exhibited the expected outcome in terms of strategic responses to industry globality. Three cases were rejected or partly rejected, all of which displayed below average performance in terms of financial/sales performance and company independence. Two cases were classified as partly rejected and partly consistent with the propositions.

The conclusions are substantiated as follows:

- Four out of six case companies operating in multilocal or multidomestic industries (Porter, 1986) comply with the model: i.e. they are more concerned about securing their positions in existing markets, than to expand into new markets. The major reason for this strategic focus is that they have not the necessary preparedness for internationalisation, nor are they challenged by globalisation drivers to venture into new markets. One case was partly rejected and partly confirmed: this particular company benefits greatly from its mother company's financial and network resources, and was therefore able to adopt a far more aggressive international stance than posited by the model. One case was outright rejected: this company had also expanded actively in international markets than warranted by the model.

- Thirteen, or more than half of the case companies, operate in markets that are labeled potentially global. Ten among these companies comply with the model in that they seek actively to expand their activities in international markets. Judged by the answers given to questions on motivation for international involvement, this expansion seems more driven by internal motives - like capitalising on their competencies in a broader market - than by the expected driving force: competitive pressure. Yet, the actions these companies carry out do embody strategic moves which can be described as preemptive (trying to capture a positition in key markets before risking to be defencelessly "swept out of" the home market as a consequence of the globalising competition). One company has developed both "confirmed strategies" and "rejected strategies", whereas two companies have developed strategies that reject the proposition. Both these companies are in the contracting business and are chasing large international tenders rather than developing niches in selected markets.

- Three of the case companies operate in a global industry environment. All three are in compliance with the model in that they seek a variety of "mature" strategies aiming at strengthening their position in world markets.

Another conclusion from the analysis is that SBUs of larger concerns appear more prone to develop viable strategies in globalising markets. 16 of the 22 companies operate in globalising markets, half of which are classified as SBUs, the other half as SMBs as of 1989. Irrespective of the performance criteria used (export performance or general sales/financial performance) it is concluded that seven of the SBUs have achieved average or above average results. Among the eight SMBs that compete in globalising markets, three may be termed successful or conditionally successful and five fall in the less successful group. Examining these latter (the less succesful ones) it is found that one has been merged with a competitor, and two other ones have been acquired by other companies or dramatically changed the ownership structure, all while retaining their operating and strategic independence. A fourth SMB, a relatively small family owned company, has remained independent - but has lost shares in key markets.

Thirdly, it is indeed possible for SMBs to operate in globalising markets. Among the three successful SMBs referred to above (competing in globalising markets), the following has been found:

- One company (contractor) operating in a "potentially global" market environment and not so well prepared to meet globalising markets, follows two different lines of strategies: one of project search in many markets (which is *not* recommended by the model), and one of concentration on a narrow niche in selected markets (which is recommended by our model). It needs to be added that much of the reason for the success of this particular company lies in its ability to steer clear of the problems caused by a home market in sharp decline.

- Another company competes in global markets and has long experience in international operations. This company pursues a complex strategy of strategic alliances, stepwise expansion abroad mainly through acquisitions, (recommended by the model).

- A third company finds itself in a potentially global market with above average capabilities in entering international markets. It is actively positioning itself in the home ground of its major competitors, well aware of the competitive perils in its home market as a consequence of the enlarged European market (indicating full compliance with the model).

A fourth conclusion is that even small or medium sized companies may play a dominant role in global markets. In the present sample, one company (an SBU of a large multinational concern) has carved out a leadership position in several key markets *without* really depending on the resources (marketing network or product development) of its mother company. However, it is believed that this company has benefitted from the impetus of its mother company in what one may term "political" markets (telecommunications).

The general concern that SMBs are absorbed by acquiring mother companies, seems to be overstated. Among the thirteen original SMBs of the sample, three companies have lost their independence - two of which having gone bankrupt, and being integrated in new mother companies after takeover. Two other SMBs were acquired by Norwegian interests, but have maintained their strategic and operational independence. Also the SBUs of larger concerns have generally affirmed their strategic and operational independence.

1.4 Chapter Overview

This section gives a brief overview of the remainding chapters of the thesis.

The theoretical basis of the study is presented in chapter two. The chapter is divided in four main sections - each discussing the implications for the study of the corresponding strand of literature: international trade and investment, strategic groups, incremental internationalisation and global strategy and management. A fifth section sums up the discussion.

Chapter three describes how the theoretical foundations may be integrated in a model, "Nine Strategic Windows", and discusses the strategy recommmendations of this model.

Chapter four presents the research method. A paramount feature is here the longitudinal approach of the study of the 22 cases.

The empirical findings are presented in chapter five and six. Chapter five displays the results from the analysis of the ten companies in the ship equipment sector, whereas chapter six does the same for the 12 companies in the construction industry.

In chapter seven the discussion is completed and conclusions are given both as to the postulated propositions and to the normative ramifications of the findings.

Finally, in chapter eight implications for both industry and government are discussed, advice as to the practical use of the model is given, and a future research agenda is discussed .

Figure1.2 gives a conceptual presentation of the chapters.

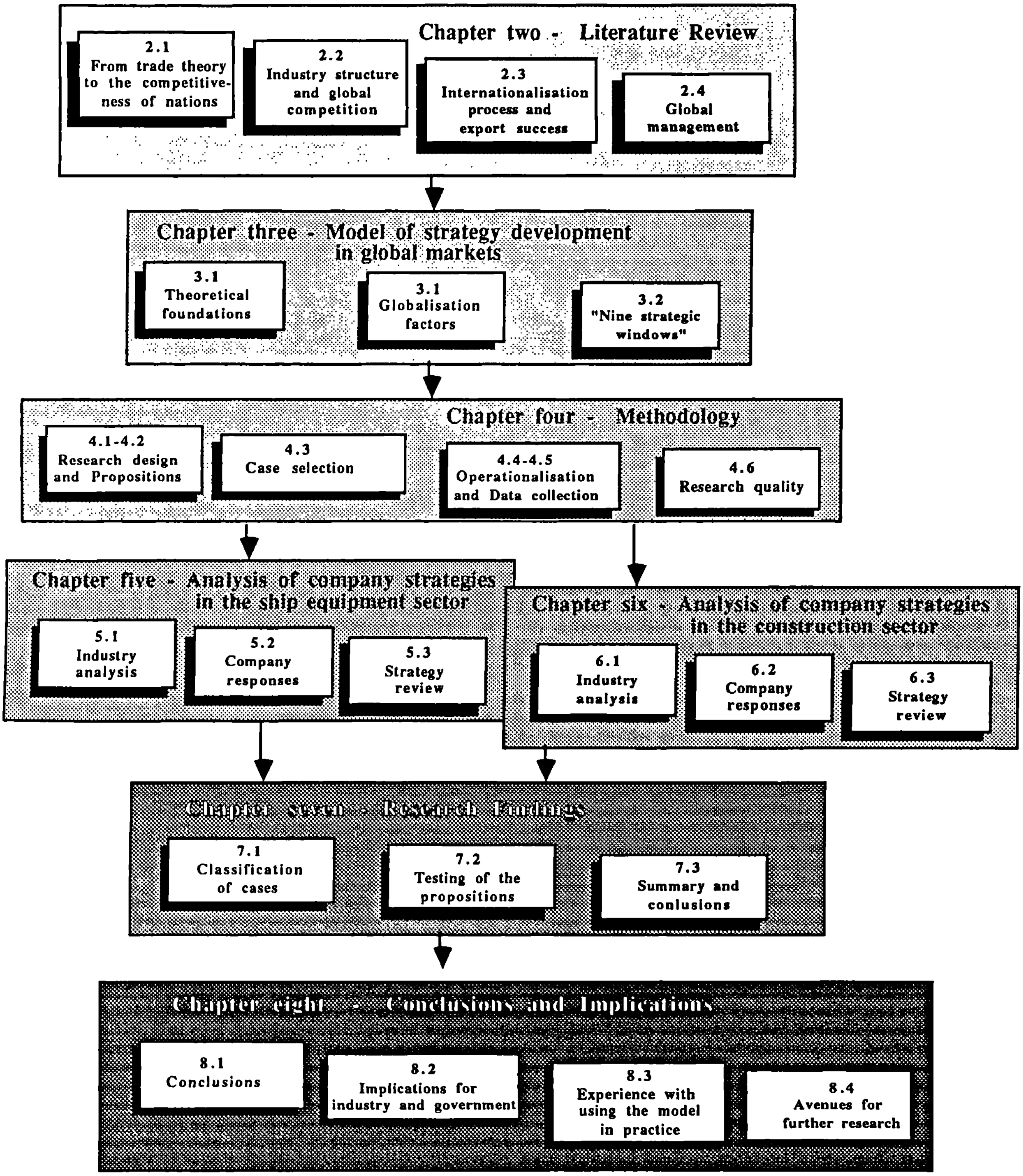

Figure 1.2: Conceptual Presentation of the Chapters

Chapter Two
Literature Review

Chapter Two
Literature Review

The main purpose of this chapter is to classify the theoretical and research contributions pertaining to the research issues of this thesis. The relevant literature is extremely wide, but can be classified in basically four groups: international trade and investment; industrial organisation; the Uppsala School on incremental internationalisation; and the literature on global strategies.

In other words, the thesis draws on a diversity of schools of thought. Through this chapter the author intends to identify and narrow down the theoretical basis for the study to encompass the most critical and relevant facets of theoretical foundations and relate these to the rest of the above mentioned schools.

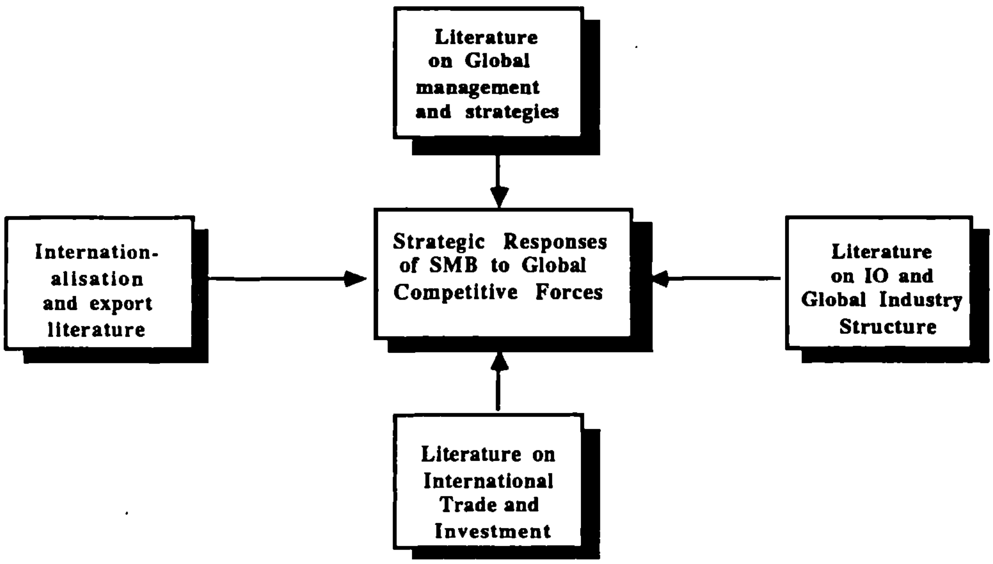

Figure 2.1. Literature and Thesis Issues

The chapter is divided in five sections:

2.1. This section gives a brief overview of the main streams of theoretical development in international trade, from the classical work of Adam Smith to the recent work of Michael Porter on competitive advantage of nations. The section concludes that classic theories of trade are unable to explain FDIs and intraindustry trade in manufactured goods. This leads us then to the next paragraph, dealing with industry structure.

2.2. The purpose of this section is to guide the author in his search of a framework of international competitive setting of the firm. It reviews some of the main writings in industrial organisation (IO) with particular emphasis on market and competitive structure, discussing the effects of mobility barriers. Analysing entry barriers in international markets, the author has found it useful to introduce other elements than the ones traditionally treated by the IO literature, such as the role of networks and culture as barriers to entry. Contributions on industry structure in globalising markets are also discussed.

2.3. The third section will dwell on different contributions in internationalisation and export literature. The Uppsala School of incremental internationalisation is one important string of research, of particular interest to the newcomer and SMBs. Another field of research is the related export literature endeavouring to explain success in exporting and international marketing.

2.4 This section will briefly review some of the major contributions in the literature on global management and strategies. This strand of writings - with important contributions from Porter, Hamel and Prahalad, Bartlett and Ghoshal, Yip and others - is important in that it elicits the the rules of the game of large players in global industries. Furthermore, as such it gives us insights into both global strategic management and - somewhat more indirectly - its consequences on industry structure in world markets.

2.5. Finally, an attempt is made to pull the different strings together in a framework of international behaviour of the firm in a globalising environment. This framework constitutes the basis for the development of the model, the "Nine strategic windows" (chapter three), and testable propositions (chapter four).

2.1 From Classical Trade Theory to the Competitiveness of Nations

International trade and investment play a prominent part in world economic order. In many countries exports account for more than a quarter of the GNP (in the Netherlands this ratio exceeds 50%, in Norway it varies between 30 and 35%), and even in larger economies like the US and Japan where this ratio is traditionally low, it has been increasing (US 7%, Japan 13%). The occurrence of direct foreign investments is another important feature of the international economy, and has given rise to the multinational corporation (MNC). In some countries, foreign investors dominate certain sectors of the economy and foreign trade (Ireland - electronics; Benelux - petrochemicals, automotive industry). As a result, individual countries' economic life is strongly intertwined and interdependent, and the MNC play an ever increasing part in this picture. One important feature of this picture is the evolution of global oligopolies (Ohmae, 1985; Porter, 1986). This section will briefly review some of the main theoretical writings seeking to explain these phenomena.

Early contributions to trade theory sought to explain international trade by analysing the cost of production (Smith, 1776; Ricardo 1817) and the cost of factors of production (Heckscher, 1919; Ohlin, 1933). Samuelson (1948) extended the Hecksher-Ohlin theorem and showed that when trade between two countries is liberalised, the factor costs will equalise, and the very basis for trade will eventually disappear. These theories have been criticised for unrealistic assumptions, and have in fact been refuted both through empirical analysis (Leontieff, 1953), and by mere observation of the development of international trade since World War II.

Therefore, other explanations to trade had to be sought. Table 2.1 indicates the main currents of economic thought in international trade and investment over the last 30 years.

Table 2.1: Currents in International Trade and Investment Theory Since 1960

Theory/school	*Contributors*	*Main field of study and contention*
Demand structure	Linder, 1961	Companies will seek to expand their activities to countries with similar needs (and factor endowments) as a prolongation of their home based activities.
Intraindustry trade	Grubel&Lloyd, 1975 and others	Identify measurement methods and show the extent of intraindustry trade in differentiated products.
Technology gap	Posner, 1961) Hufbauer, 1966)	Technology and products will be transferred to other nations, after a period of reaction and imitation. Dynamics of economies of scale may prolong this period of time.
Product life cycle	Vernon, 1966, 1979	Explains how manufactured products will be produced for the home market, then exported from the US, and later imported to the US from the lowest-cost location for manufacturing the product.
Transaction cost and internalisation	Buckley&Casson, 1976	Firms invest abroad, rather than exporting or licensing, in order to capitalise on local cost advantages and to internalise the transaction, thus reducing the transaction costs.
Eclectic paradigm	Dunning, 1979, 80, 87, 88	Foreign investment decisions are based on ownership, locational and internalisation advantages
Competitiveness of nations	Porter, 1990	Industry clusters in different countries develop as a consequence of competition, supporting networks and government policies. These clusters impact on patterns of trade

The different strands of the literature in table 2.1 explain in their individual ways the occurrence of international trade and investment. The main argument of the demand structure school of thought is that similar demand patterns in the final analysis lead to intraindustry trade in differentiated products. The common denominator of the technology gap and PLC theories is that competitive advantage of innovators in one country is - after some time - being exported to other countries, and according to the PLC theory, is followed by foreign direct investments of the innovators. The theory of international production makes its mainstay argument based on (monopolistic) advantages of firms, being exported through foreign direct investments. Finally, the development of industrial clusters (eg. a cohesive industry in one nation competing efficiently in international markets driven by a web of forces related to the industry) are the very basis for international competitiveness of industries in many countries and constitute therefore a major force in international trade. The rest of this section reviews these four strands of economic thought and relates them to the issues of the thesis.

2.1.1 Demand Structure and Economies of Scale

Staffan Burenstam Linder (1961) maintained that demand was much more important for trade in manufactured goods than factor endowments. He argued that generally entrepreneurs of different countries are unaware of trade opportunities overseas. These firms will first start to produce for the home market. Later on - when the home market becomes satiated - they will extend the output of their traditional product mix to other markets. Therefore they will tend to export goods to countries with similar demand structures. This theory brings in the behaviour of the firm as a main determinant of trade, and may therefore be seen as a precursor to the Uppsala school of incremental internationalisation (to be reviewed in a later section). It is also interesting to notice that Linder explains trade development by one of the two factors which some 20-25 years later constitute the basis for Levitt´s (1983) and Ohmae´s (1985) main argument on globalisation: homogeneous demand patterns. Another important ramification of Linder´s theory is that intraindustry trade is predicted to dominate the trade patterns of manufactured goods between countries with similar per capita income.

In fact, the growth in intraindustry trade after World War II supports the explanatory power of Linder´s theory (Grubel and Lloyd, 1975; Aquino, 1978; Lassudrie,-Duchène and Muchieli, 1979; Balassa, 1979; Bergstrand, 1983). One important feature of this development has been the increased specialisation of manufacturing and thereby improved scale economies, which as a consequence eventually will lead to an industry structure of monopolistic competition. Krugman (1989) states that:

> "economies of scale will imply that output of each individual differentiated product is concentrated in one country or the other ... the important point is that within the Manufactures sector each country will be producing a different set of goods. Since each country is assumed to have a diverse demand, the result will be that

even a country that is a net exporter of Manufactures will still demand some imports of the manufactures abroad" (p. 1185).

In spite of repeated attempts to identify positive correlations between scale economies and increased intraindustry trade, no such link has yet been established (see for instance Greenaway, 1987). One possible reason for the absence of empirical evidence is problems in defining statistical nomenclature complying with the theoretical constructs (Krugman, 1989).

2.1.2 Technology Gap and International Product Life Cycle

It has been held that increased R&D costs force many companies to seek broader international target markets (Ohmae, 1985, Porter, 1986, Tinsley, 1986). Furthermore, Greenaway (1986) has shown that technological innovation and intraindustry trade are interlinked. Posner (1961) and Hufbauer (1966) have developed models which include this dimension, the so-called "technology-gap" theory. Posner introduces the concept of "reaction-lag" and "imitation-lag" in the international diffusion of technology, leading the innovator country to cease exporting when - eventually - the importing countries have adopted the technology. Of course, with further innovation the innovator country may prolong its comparative advantage. This is in fact what Porter (1990) some thirty years later finds in his industrial clusters. Hufbauer's (1966) theory ressembles that of Posner, with one important addition: he introduces the learning curve concept in the model, implying that the imitation lag extends over a longer period of time. He further asserts that industrialised nations would concentrate their manufacturing industries on technologically sophisticated products, leaving to imports products with more mature technologies. Thus, he implicitly endorses the Hecksher-Ohlin theorem of factor endowments.

Both these models lack, however, a consideration of the role of international investment. Vernon's international product life cycle (Vernon, 1966) includes this factor and can in fact explain certain developments of post World War II US trade until the 1960s (like for instance trade in radios, television sets, transistors). Vernon's three phases of the PLC - innovation, mature product and standardised product - explain both US foreign trade and investment in the same framework. On the other hand, Giddy (1978) criticises the model as being too deterministic in its prediction, in view of the increasing subtleties of the global competitive environment. Also, the PLC does not explain intraindustry trade, at least not in the short run. In fact, its assumptions of different income levels of the US and her trading partners - a contradiction to Linder's demand structure theory - are critical for the theory. Nor does it elucidate the behaviour of multinational companies now capable of transferring development, manufacturing and marketing of products to different countries within a relatively short period of time. In his own critique to the PLC, Vernon (1979) takes account of these two latter factors, the levelling out of income and the MNCs' spread of global network increasing their scanning capabilities, alleging that they seek to "exploit economies of scale .... in both advanced industrialised countries and developing countries, [crosshauling] between plants for the assembly of the final products" (p. 263). Thus, the expanded PLC hypothesis represents a link to the global management school of thought and as such recognises the emergence of global competition. Still, we ask with Porter (1990, p. 17) why certain industries sustain a competitive advantage in certain countries in contrast to Vernon's prediction, and others not?

2.1.3 Transaction Cost and International Production

It is interesting to notice that the theory of international production, as described by writers like Hymer (1960), Dunning (1979, 1980, 1987, 1988) and Buckley and Casson (1976, 1985) underscores Vernon's assumption of technological superiority which at stage two of his international PLC will be exported to countries lagging behind in income levels. In fact, this phenomenon of monopolistic advantage through superior technology, coupled with the imperfect market of know-how rendering difficult a free market transaction of technology, was Hymer's key argument to explain why US firms invest in foreign markets (Hymer, 1960). The introduction of transaction cost theories to explain the internalisation of the transfer of technology (Buckley and Casson, 1976) positioned Hymer's theory in a broader theoretical context.

Dunning´s eclectic paradigm (1979, 1980, 1987, 1988) endeavours to predict foreign direct investments by firms, and introduces the O-L-I concept in order to explain foreign direct investments: *ownership* advantage (monopolistic advantage in Hymer´s and Vernon´s terminology), *localisation* advantage (based on factor costs, as in the Hecksher-Ohlin theorem) and *internalisation* advantage (explaining why the firm itself prefers to make the investment rather than licensing out the technology, based on Williamson´s (1979) transaction cost theories). Whereas internalisation advantage explains why firms choose to invest abroad instead of reverting to licensing, the ownership advantage makes account of why one particular firm makes the investment and not another one. Furthermore, when ownership advantages are internalised, one would expect to see economies of scale. There is therefore a link between the eclectic theory and the theory of industrial organisation (see next paragraph). This latter is more concerned with the effects of size on competitive behaviour than as a determinant of foreign direct investment. However, foreign direct investment is indeed a competitive action, and this fact is not being considered by the proponents of the internalisation school of thought. Therefore one may say that the eclectic paradigm fails to take account of one critical factor: the effect of globalisation of markets on the competitive behaviour of industry actors as a variable explaining foreign direct investment.

Many studies give support to the transaction cost explanation of foreign direct investments. Taking R&D and advertising expenses as proxies for intangible assets, a long range of researchers have found, based on US data, positive correlations with FDI (Grubel et al, 1967; Horst, 1972; Wolf, 1977; Pugel, 1978; Bergsten et al, 1978, Goedde, 1978; Parker, 1978; Lall, 1980). Horst (1972), for instance, has found that US food processors with high advertising content tend to capitalise on the brand recognintion advantages in international markets through foreign direct investments. Food processors with firm specific advantages in distribution systems tend to stay in the US and even within this country in the local market. Caves (1982) holds that transaction costs are the single most important explanation to multiplant MNEs, because "the economics of multiplant operation can be identified with use of the firm´s intangible assets which suffer many infirmities for trade at arm´s length" (p. 29).

2.1.4 Industry Clusters and Competitiveness of Nations

Porter is generally best known for his contributions in competitive strategies of firms. However, with his work, "The Competitiveness of Nations" (Porter, 1990) Porter enters the spheres of international trade and investment, albeit indirectly. He asserts that national competitive advantage is not a result of factor endowments - be it natural resources, labour or capital as is the premise in classical economic theory. Competitiveness is *created* by the companies in the nation's industry operating in the interface between other companies and institutions in the country. He and his research team found that national competitiveness was developed around industry clusters in a "diamond of national advantage" consisting of four elements: factor conditions, demand conditions, related supporting industries and the strategies and rivalries within the industry.

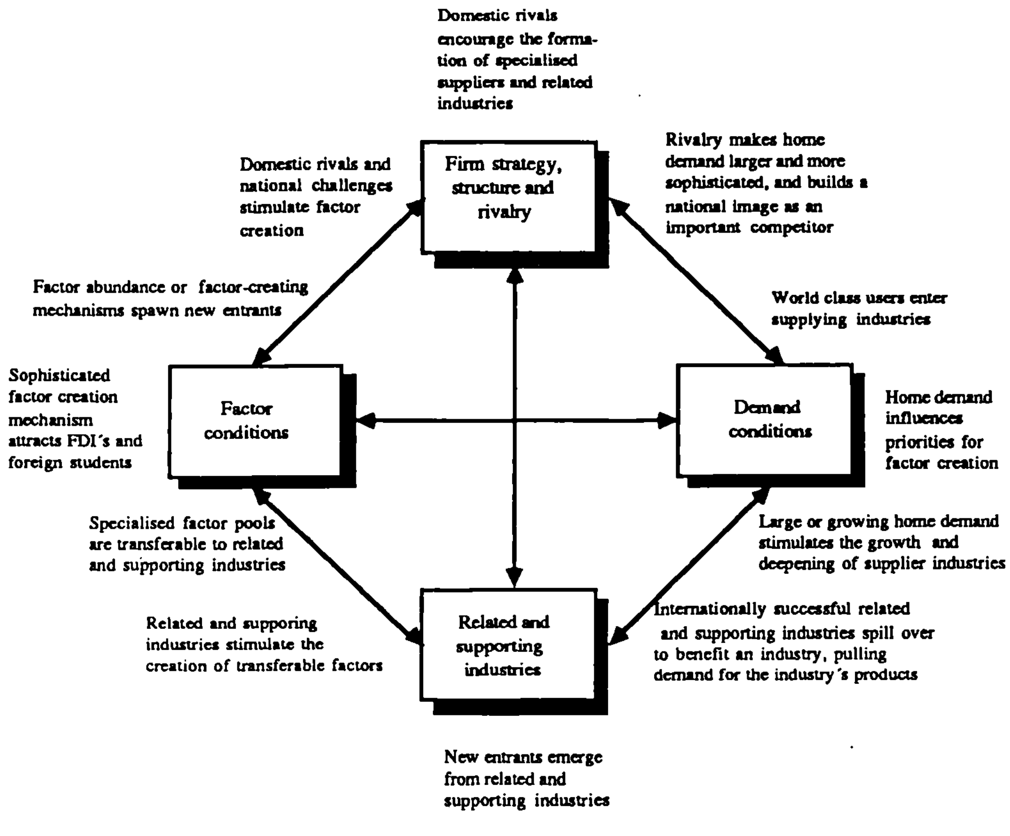

Figure 2.2: Porter's Diamond of National Competitive Advantage
Source: Based on Porter, 1990, pp. 133-41.

These four factors constitute a major force in forming and developing the base of any competitive industry. They emanate from the economic structure of the nation, her value system, institutions and history and the further development of the diamond has to be nurtured by a finely tuned industrial policy encouraging internal competition, advanced education leading to innovative research and development, etc.

> "Instead of only deploying a fixed pool of factors of production, a more important issue is how firms and nations improve the quality of factors, raise the productivity with which they are utilized, and create new ones" (Porter, 1990, p. 21).

Porter´s industrial clusters are closely related to Dunning´s ownership advantages. In fact, Dunning (1980) observes that ownership advantages of today are the result of locational advantages of yesterday. Taken as a whole - from an industrywide perspective - the skills and knowledge of *individual firms* of an *industry* are essentially the same as Porter´s industry clusters.

However, the idea of national competitiveness has been fiercely criticised. Reich (1991) holds that economically speaking, there is not any longer such thing as a nation, and that competitiveness of *nations* therefore is an illusion. He invites us to consider several examples of what he terms the "global web", of which we will mention only one:

> "Precision ice hockey equipment is designed in Sweden, financed in Canada, and assembled in Cleveland and Denmark for distribution in North America and Europe, respectively, out of alloys whose molecular structure was researched and patented in Delaware and fabricated in Japan" (Reich, 1991, p. 112).

Porter sees this from the viewpoint of the firm and defines the nation`s competitiveness as being the sum of the nation´s individual firms´ competitiveness, working in a mutually dependent network of supportive relations. These relations may well cross the national borders:

"Where factors are mobile and can be tapped through global strategies, moreover, the efficiency and effectiveness with which factors can be used become even more central" (Porter, 1990, p. 21).

They are, all the same, exploited and partly also controlled by the firm in order to achieve a competitive supply of products to world markets. And the relations nurtured by this firm with its national environment is in the core of and creates the national competitive advantage.

2.1.5 Summary

One may conclude this section by stating that the theories of classical and neoclassical economists only to a limited extent - mainly commodities and undifferentiated products - explain the trade and investment patterns of the world today. Burenstam Linder's (1961) demand structure theory, Posner's (1961) and Hufbauer's (1966) technology gap theory, and Vernon's (1966) product life cycle theory gave new insights into these phenomena and extended the reach of the theories to manufactures. Instead of static classical assumptions, these theories take account of dynamic factors such as the learning curve, the behaviour of the firm, technological development and foreign investment. The theory of international production may be viewed as an extension of Vernon's PLC theory, and seek to explain foreign direct investment - and thereby the evolution of the MNE. Although Porter's "diamond" has been criticised (Allio, 1990; Leontiades, 1990; Reich, 1991), the concept of industrial clusters casts new light on trade theory and may explain trade patterns in a wide range of industries.

The main ramifications from this discussion on the issues raised in this thesis are shown in figure 2.3. The figure indicates that the freer trade, increasingly similar demand patterns and improved infrastructure (like transport and telecommunication) seen since World War II have lead to improved economies of scale and a growth in foreign direct investments. All these factors are in turn positively related to intraindustry trade and the evolution of international oligopolies. In the next section we will relate this development to the structure-conduct-performance paradigm (Bain, 1956) and discuss how entry and mobility barriers as being discribed in the literature apply also in a wider international context.

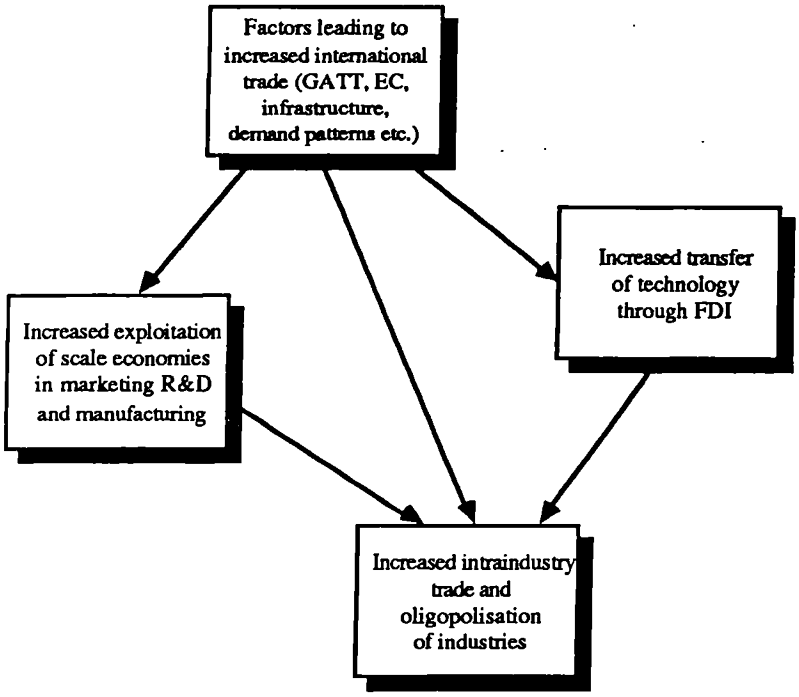

Figure 2.3: Evolution of Intraindustry Trade and Global Oligopolies

2.2 Industry Structure and Global Competition

This section will seek theoretical answers to two questions:

- Why are certain industries concentrated in a few players, whereas others are much more fragmented?

- Why are international oligopolies more conspicuous in some industries than in others?

To this end we will largely resort to industrial organisation (IO) and its Structure-Conduct-Performance (S-C-P) paradigm originally initiated by Mason (1939) and Bain (1956) and later further developed by writers like Scherer (1970/1980), Caves and Porter (1977) and Comanor and Wilson (1974). The underlying reason to include IO is its powerful ability to analyse industry structure, its determinants and its effects on strategic behaviour. The main weakness of traditional IO in the context of this study is its neglect of international aspect of competetion, both regarding potential entrants and international competition as such. One other weakness is its static approach to competition. These weaknesses are sought attenuated by introducing new insights by writers like Porter (1986) and Hamel and Prahalad (1985) and others regarding international competition, and by bringing in concepts from other schools of thought, like the IMP-School and writers on culture. It is not the intention of this section to review the whole area of IO and the other schools of thought mentioned; rather it endeavours to cast light on some key elements of industry structure by means of discussing the contributions of a selected number of writers.

2.2.1 The S-C-P Paradigm

The S-C-P has aroused a considerable amount of research both among traditional IO economists and business strategy writers. Originally intended to constitute a means for the authorities to regulate or influence industry structure, one strand of research within the IO tradition has diverged more and more into the business policy and strategic management field (Porter, 1981). This is a fruitful development which has given many interesting insights into strategy formation, and it is in this capacity that the present study will apply constructs and research results from this school of thought.

The modern IO literature as initiated by Bain (1956) has many antecedents, dating as far back as Cournot (1838) and his duopolistic game theoretical equilibrium. Chamberlin (1933) cast light on the role of product differentiation as a major deviation from the perfect competition model. Through differentiating its products from the competitors´ products, a firm is able to establish a "little bit of monopoly power" (Lyons, 1988), and indirectly, Chamberlin introduced the concept of entry barriers. These latter were precisely the mainstay argument of Bain (1956) some twenty years later, when he introduced the S-C-P model. The key elements of this model are:

> Market structure - or in other words the *concentration of sellers, the degree of product differentiation*, and *conditions of entry* into the industry (the degree to which incumbent firms can maintain a

premium price relative to minimal average price without enticing new firms to enter)

Conduct - the behaviour or the strategy of firms in response to the structural conditions of the industry, such as pricing, advertising, quality, output.

Performance - defined very broadly, encompasing elements like profitability, cost effectiveness and innovativeness.

Caves (1980) defines market structure as referring to

> "certain stable attributes of the market that influence the firm's conduct in the marketplace. Significant elements of market structure include the number and size distribution of sellers and buyers, height of barriers to entry and exit, extent and character of product differentiation, extent and character of international competition (if the market is defined more broadly than the nation) and certain parameters of demand (elasticity, growth rate)" (p. 64).

Caves' definition is broader in that he introduces elements like international competition and demand elasticity and growth.

Sölvell (1987) in his PhD dissertation mentions six dimensions of industry structure: seller concentration, cost structure, product differentiation, innovative activities, diversification and integration, and goes on to describe how these dimensions impact on entry barriers to the industry. Table 2.2 gives Sölvell's summary of the implications on entry barriers:

Table 2.2: Structural Dimensions and Implications for Entry Barriers

Structural dimension	*Implication for entry barriers*
Concentration	Collusion
Cost structure	Economies of scale, learning
Product differentiation	Brand loyalty, switching costs
Research and development	Absolute cost advantages (patents)
Diversification	Economies of scope, cross fertilisation, cost of capital
Vertical integration	Economies of joint operations, cost of capital, price discrimination

Source: Örjan Sölvell, 1987, PhD Dissertation, Stockholm School of Economics.

The problem with the various definitions offered to market structure is that these dimensions of structure partly overlap one another and may partly also qualify as *determinants* of the same market structure (like for instance entry barriers). One element of market structure that has been given considerable amount of attention is the concentration of players in the industry. One important reason for this attention is that the interdependence between the firms in an industry and their conjectures about rivals' potential behaviour is the cornerstone of most oligopoly theory (Davies,1988), and in fact, a great many industries have been showing a tendency to be ever more concentrated since the turn of the nineteenth century.

Chandler's (1977) account of the development of US industries gives insight into the factors that have played a role in this process of oligopolisation: technology (starting with the railway and the telegraph) and the firms' ability to develop strategies and an organisational structure to meet these challenges. Davies (1988) alleges that the determinants of industry concentration has been subject of a "hotch potch" of different ideas and models. He, himself, operates with the following main determinants: technology and barriers (the traditional S-C-P approach), conduct, stochastic processes, mergers and public policy.

The traditional IO approach was that structure determined the conduct of the firms whose joint conduct in its turn determined the performance of the industry. This is shown in figure 2.4:

Structure ——→ **Conduct** ——→ **Performance**

Figure 2.4: The Traditional IO Paradigm
Source: Porter, 1981

Whereas Bain places most of the emphasis on the effect of structure on performance, later writers, like Scherer (1970), Comanor and Wilson (1974), Caves and Porter (1977) underline the importance of conduct, ie. the strategic behaviour of the firm. Comanor and Wilson (1974, chapter 6) introduces a feed-back loop indicating that past performance has a bearing on the strategic alternatives available to firms and that the strategy chosen and implemented has some influence on the market structure. Figure 2.5 shows this new development of the S-C-P paradigm.

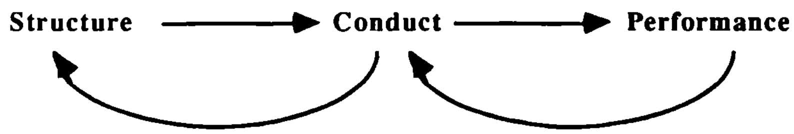

Figure 2.5: Updated IO Paradigm
Source: Porter, 1981

Thus, the updated S-C-P model takes into account also the effect of for instance technological innovations, albeit in a rather deterministic way, positing that R&D leads to new products which again leads to higher returns. The Schumpeterian model is more dynamic in its assessment of the effects of technological innovations. These have sometimes a dramatic impact on competitive structure of industries. When they appear,

> "their ultimate impact may not be known for some time, at which point it may be too late for older firms with older technologies and skills to compete in new markets requiring new skills. On the other hand, guessing too early that a given innovation will become dominant may jeopardize a firm's long-term survival by betting on a technology or market that ultimately is not dominant" (Barney and Ouchi, 1986, p. 377).

The rest of this section will discuss the occurrance of entry barriers both in the traditional IO sense of the word, and in the enlarged sense of mobility barriers. We will also discuss barriers to entry in *international* markets. The section will conclude by analysing the combined effect of these three sets of barriers on the industry structure in the global market place. Figure 2.6 shows the train of thought behind the discussion.

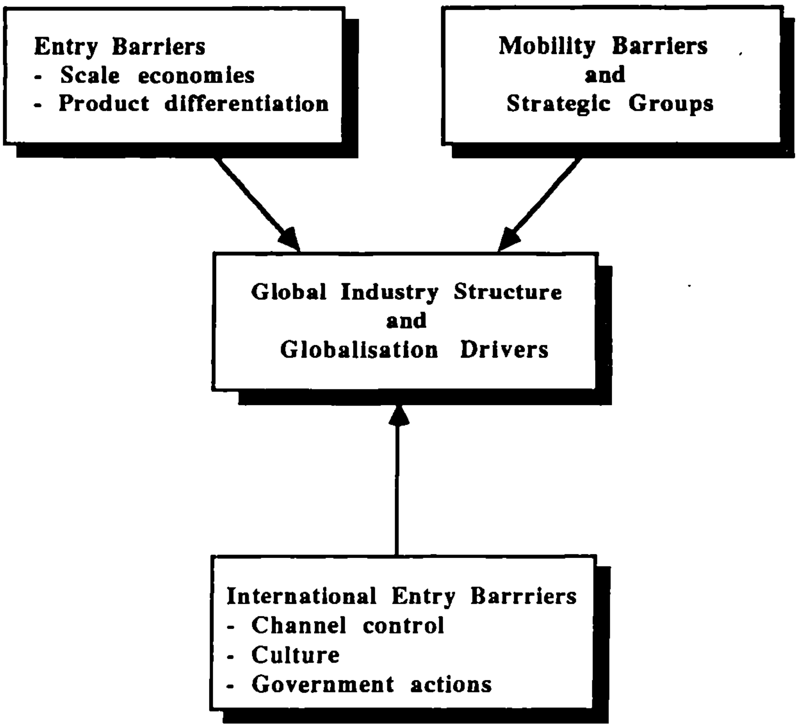

Figure 2.6: Barriers and Global Industry Structure

2.2.2 Entry Barriers

Like the concept of market structure, the classification of entry barriers is also hampered with different approaches. Bain's (1956) rather general definition indicates that entry barriers could be "anything" that permits high prices in the long run. Lyons (1988) mentions four sources of entry barriers: absolute cost advantages, economies of scale, product differentiation and finally, advertising and other discretionary expenditures. Caves and Porter (1977) operate with other - but to some extent parallel - entry barriers: excess capacity, vertical integration, cost structure and product differentiation (including advertising and R&D outlays). An interesting aspect of these four barriers is that the three first ones are tangible, ie. they represent investments which may in most cases find alternative uses and which therefore may be dispensed of in the short run. On the other hand, barriers linked to product differentiation are typically intangible assets which seldom can be sold out on short notice, and which therefore have use only for the firm that invests in them. In other words, they may be regarded as sunk costs. This is of importance when analysing the incumbent firms' entry deterring behaviour (Caves and Porter, 1977). They represent a reduction in the short run profits, but at the same time constitute an investment in structural barriers to entry.

It should be noted, however, that research on entry barriers does not give unanimous support to their role in forming industry structure. For example, Shepherd (1972) found in his analysis of 231 US firms (from Fortune 500) in 1956-69 that "entry barriers.....appear to have only a relatively small role in market structure, though their descriptive and theoretical uses may still be important" (p. 35). According to his findings, "general entry barriers" have some power in explaining profitability of large firms, but not in explaining concentration ratios; actually, "size carries a negative coefficient" (p. 35). On the other hand, advertising in consumer goods correlates positively in his data.

In the following we will review only two elements of entry barriers:
- Scale economies
- Product differentiation

Absolute cost advantages as an entry barrier are incontestable, and are therefore not treated in this context.

Economies of Scale

The effect of economies of scale as an entry barrier stems from the belief that potential entrants will have to incur investments which by the incumbent firms are regarded as sunk costs. This makes the latter more inclined to respond to entry by reducing price to marginal costs, and thereby threaten potential entrants with a price war. It also means that an incumbent monopolist can price his products at above average costs - so called limit pricing (see for instance Modigliani, 1958), without attracting entry from newcomers.

Economies of scale is a complex concept and can be explained by long range of factors. Scherer (1980) cites numerous researchers when documenting the effects of these factors. One such factor is the learning curve and its links to market share, which has constituted the foundation of the BCG growth-share matrix (Heldey, 1977). Related to the learning curve is work force specialisation giving skill gains. Scherer (1980) also cites the gains of scale in areas like advertising, R&D (although this latter is more debatable, see Scherer, 1980, pp. 407-38), and asserts that capital costs are lower for larger firms than for smaller firms. Multi-plant firms also seem to achieve some advantages relative to single plant firms.

Many studies show the relationship between economies of scale and cost performance (see for instance Griliches and Ringstad, 1971, Scherer et al., 1975, Baldwin and Gorechi, 1986). This has lead to the introduction of the concept of minimum efficient or optimal scale which is defined as "the smallest scale at which minimum unit costs were attained" (Scherer, 1980, p. 84), and may be regarded as a measure of the number of plants that there is room for in an industry (Lyons, 1980). Scherer et al (1975) give evidence of the importance of MOS in different sectors of US manufacturing industry. In most industries surveyed MOS does not constitute more than between less than 1% and 4% of total US demand (Scherer et al., 1975). One conclusion to be drawn from these figures is that the effect of scale in these industries does not warrant any bold initiative toward international markets in order to secure sufficient output volume.

The situation in Europe is of course different, with markets of individual countries being a fraction of the large US market. Still, intraindustry trade in countries like Germany, France, UK and Italy does not seem justified from this perspective in the industry sectors surveyed (one exception is refridgerators). Since in many industries the size of MOS has had a tendency to increase with time (Sand, 1961), the situation today may be different from the early seventies when this study was carried out. It is also a question at which level market size is determined. In many instances, firm specialisation is targeted to a very small segment of the market, a factor which may not have been captured by Scherer and his associates (Scherer et al., 1975). In this event, relative market size may shrink dramatically with the ensuing consequences on the necessity of international involvement of the firm.

The size of MOS is at best difficult to assess. Many factors place limitations to scale economies (Scherer, 1980): worker satisfaction vs higher wages, complex material flows, risks of strikes and fire, market uncertainties, disharmonies of MOS between interdependent departments, complex control. Concerning this latter, decentralisation has been termed "American capitalism's most important single invention in the 20th century" (Williamson, 1970, p. 175), making it possible to run large organisations without burdening buraucracy. Penrose (1959) argues in the words of Scherer (1980, p. 87) that

> "expansion during any short interval of time is constrained by the inability of the firm's management to cope with all the planning and leadership problems created by greatly increased size".

In the long run, however, management will digest the problems of growth. Therefore, she argues, there is no limitation to MOS in the long run.

Another factor already referred to, multi-plant operations, is - despite the national perspective taken by Scherer (1980) - of particular interest to our study, since this is highly relevant of MNEs. It triggers the following question raised by Scherer (1980, p. 102): "Why does a firm have to serve the entire continental [US] market?", and by extension the world market? His answers seem more to be directed by tactical issues (transport efficiency, phasing in of different plants, production sharing etc.) than by substantial or strategic deliberation, and the research cited is not unanimous in its conclusions. He fails, however, to make allusion to the internalisation school which elicits the gains from transferring ownership advantages to new markets (see section 2.1). Neither does he seek to explain this phenomenon by investigating the configuration of the customer base of multi-plant firms. One possible hypothesis is that firms invest in multi-plant facilities in order to follow their customers in new markets. And finally, spreading manufacturing activities to "all corners" of the market may be justified as a response to actions taken by competitors (Hamel and Prahalad, 1985; Porter, 1986, Tinsley, 1986). Whereas MOS has a bearing on the number of plants in the industry, the extent of multiplant operations is an indication of the industry concentration.

Mergers and acquisitions are partly connected to economies of scale, since this is one of the very reasons why firms merge. They are also related to the oligopoly theory as another aim of mergers often is to consolidate the market power in few hands. It is therefore puzzling to note that while mergers indeed lead to higher growth in sales and assets of the acquirer, the profitability almost invariably tend to suffer, at least in the short term (see the long range of empirical evidence mentioned by Scherer, 1980, pp. 138-140). In this context, it is worth mentioning that mergers seem to yield most benefits in marketing and advertising and not so much in manufacturing and R&D (Kitching, 1967).

The ultimate consequences of (horizontal) mergers are in any event a concentration of industry structure. In the US this has to some extent been prevented by rigorous antitrust restrictions, whereas in Europe, the legislation and the practice of the lawmakers have been somewhat more lax (Scherer, 1980). The result has been a gradual concentration in industry structure in countries like France, Sweden, UK and West Germany (Scherer et al., 1975).

Product Differentiation

Bain (1956) alleges that product differentiation has "at least" the same effect as a barrier to entry as economies of scale. Its definition varies across writers, but will in this context be understood in its broad sense: product differentiation is anything the firm does to distinguish its own offer from that of its competitors. This means that most of the elements of the marketing mix, except for price - which rather may be viewed as a result of product differentiation - will be included in this concept (product quality and range, promotion and ´place`).

Lyons (1988) holds that because of consumer uncertainty about value of the entrants´ products, the market is "contestable in every way except that the incumbent´s product quality is known but the entrant´s is not" (p. 44), the result being a first mover advantage of the pioneer over all later entrants. Several studies have sought to establish a positive relation between "first mover" and "advantage". One of these, Buzell and Ferris (1977), found in a study of 103 large company units that entrants had to spend 2.12% of sales to promote their products, whereas pioneers were able to operate at a much lower cost - 1.45%. Another effect which may come into play is the perception of the first mover being more innovative. Scherer (1980) cites two cases where the first mover (or the "earliest surviving suppliers", p. 384) is able to hold market share in spite of substantially higher price for basically the same product.

This leads us to research and development as a way of differentiating the firm´s offerings. Mueller and Tilton (1969) divide the R&D process into four stages. In the initital stage of innovation, there is little evidence of large firms being more innovative than smaller firms (see also Scherer, 1980, p. 407-438). At the "imitation stage", when demand is growing and there is less uncertainty, entries are more usual, either through licensing or through circumvention of the patent. The next stage, the "technological competition" stage, leaves few niches open for entry and the learning curve of incumbents makes entry if not prohibitive, so at least highly onerous. Finally, in the "standardisation stage" where patents expire and there is only limited scope for further product improvement, competition turns more around price (and, we may add, availibility) than around quality and product features.

Advertising is "genuinely a sunk cost" and is therefore "certainly likely to raise the absolute cost disadvantage of specialist entrants" (Lyons, 1988, p. 48). It seems in fact incontestable that advertising is positively linked to some sort of "monopoly power", the effect being an outword shift of the advertiser´s demand curve, together with a decrease in the price elasticity (Caves and Porter, 1977). Scherer (1980) cites numerous research findings of brands commanding higher price, because of alleged consumer loyalty as a result of advertising. The pioneering work was done by Comanor and Wilson (1967), where they found that advertising was positively related to return on equity.

The "monopoly power" of product differentiation is also present in the product range coverage. The idea is here to preclude entrants to tap demand in product space areas not yet covered by the incumbent, through developing products and brands that fill this gap. One classic example of this strategy is cited by Kotler (1991, p. 502), where Heublein's Smirnoff Vodka was assaulted by a cheaper brand, Wolfshmidt. The effective response by Smirnoff was to raise its price and introduce a new brand, Relska, competing with the entrant at a lower price .

There is a link between these various product differentiation barriers, and it all seems to pin down to one effect: image, be it advertised, or "real" through better products, service, geographical coverage etc. In the final analysis, the effect seems to be a higher concentration ratio in the industry (Scherer, 1980, pp. 114-115, 392).

2.2.3 Mobility Barriers and Strategic Groups

Porter (1980) views the development of industry structure as a game between the different actors in the industry: rivals within the industry where the players are "jockeying for positions" (Porter, 1979, p. 141), potential entrants, suppliers of substitute products, customers and, finally, suppliers to the industry. Adding the governmental dimension to this picture with all that this entails of laws, regulations and different supportive measures, we get a complete picture of the firm's environment. In such a multifaceted and complex world, many researchers have analysed different dimensions of firm strategies, and the term strategic groups, originally coined by Hunt (1972), emerged as a response to the need for categorisation of firms in the same industry, albeit operating in different marketing environments.

If entry barriers have constituted the initial point of departure of IO, Caves and Porter (1977) - based on Hunt's (1972) concept of strategic groups - have introduced the more general concept of mobility barriers. These are barriers that are specific to a limited group of firms within an industry, which differentially create entry conditions and scope for collusive arrangements protecting this group (Cool and Schendel, 1985). Entry barriers can therefore represent different features within the same industry, but not within the industry group. In one part of the industry entry can be easy, whereas in another one, entry can be more difficult. Consequently, one may infer that mobility barriers will lead to different sustained performance within each group. However, as we shall see, the research on this issue does not give any unanimous support to this hypothesis. This section reviews some key contributions to the theory of strategic groups and mobility barriers.

One underlying factor determining mobility barriers is the strategic behaviour (conduct) of firms through their investments in scale, product differentiation, technology, customer coverage etc. These investments affect the firms' posture vis-à-vis their competitors who in their turn react by either matching these investments or by adopting a different strategy to counter the initial actions of their rivals (Caves and Porter, 1977). Then gradually develop different strategic groups, with different sets of entry barriers, making their products non-substitutable within their immediate customer base. This is one reason why smaller firms using suboptimal technologies and scales may profitably coexist with larger, state of the art, low cost facilities.

McGee (1985) defines strategic groups as

> "a device to segment industries into sets of companies whose competitors, actions, and results are relevant to each other, occupying the imagined, conceptual space between firm and industry" (cited by McGee and Segal Horne, 1990, p. 3).

Together with Segal-Horne, he also stresses that

> "The essence of group membership is that asset configurations represent mobility barriers which inhibit group members from acquiring alternative assets but which also protect them from members of other groups acquiring similar assets of their own" (McGee and Segal-Horne, 1990, p. 3).

However, Cool and Schendel (1985) deplore the lack of uniform understanding of what really consitues a strategic group. Following the research in this field, a whole range of different models have emerged, seeking to classify industries in different categories according to different dimensions of strategy or internal and external environment of the firm. The most widely known of strategy models is probably the portfolio matrices presented by General Electric and the Boston ConsultingGroup (for a review, see Kotler, 1991, pp.39-44), with ready made strategic "answers" like hold, harvest, build and divest, guiding the strategy work of management.

Porter´s (1980) three generic strategies - cost leader, differentiation and focus - represent the strategic group model that has received the most general recognition both among practitionners and academics in the 1980s. However, whereas the foundations of the BCG-model have been subject to a long range of supportive statistical analyses through the PIMS-data base (Buzell, Gale and Sultan, 1983), Porter´s typology is deductively developed and has only received mixed support (Cool and Schendel, 1985; Morrison, 1989). In a study based on PIMS data from 1976 to 1979, Woo and Cool (1983) challenge the proposition that Porter´s generic strategies will generate higher profits than alternative strategies. Dess and Davis (1984) concluded in a study of 15 firms that even though the cost leadership and differentiation strategies displayed higher return on assets than `stuck-in-the-middle´-strategies, the focus cluster exhibited the lowest return.

One of the weaknesses of Porter´s framework is its lack of precision in identifying the specifics of marketing, R&D, finance strategies etc (Morrison, 1989). There have been many other attempts to inductively derive strategy taxonomies based on statistic analysis of empirical data. Galbraith and Schendel, using PIMS data, identified in a sample of 1200 businesses 13 variables describing strategic position relative to competitors, and 13 variables describing changes in strategy over time. Using principal component analysis and cluster analysis, they identified six strategies for consumer products: harvest, builder, cashout, niche, climber and continuity. In the industrial products sector four types of strategies were found: low commitment, growth, maintenance and niche. Even though concerns have been raised over the applicability of PIMS data to the strategy issues addressed in the study, and over the lack of general approach - dividing the consumer goods sector from the industrial goods sector - (Chrisman, et al., 1988), the work of Galbraith and Schendel (1983) is regarded as a seminal empirical contribution to develop strategy taxonomies (Morrison, 1989). In another study, Davis (1986) found that `cost efficiency´ and `product differentiation´ were the strategies yielding the highest rewards. At the other end of the scale were different strategies which could be best characterised as `geographic myopia´.

Turning now to international strategies, Collins et al. (1989) suggest a typology of manufacturing strategies in Europe. Using dimensions like product range, technologies employed and country markets, they define the firm´s `charter´ borrowing from the military terminology. In the wake of increasing competitive pressures, the manufacturing strategy most often found was the one of `missile silo´ (few products in many markets). McGee and Segal-Horne (1990) posit a three by three matrix based on geographic coverage and marketing (brand) intensity, in order to identify nine possible branding strategies in Europe: anything from Private Branding via National and Regional Branding, to Pan-European and Multinational Branding.

The concept of strategic groups in the IO model is important in that it endeavours to further delineate the competitive arena of the firm. Even though the introduction of this concept has generously enriched the framework of competitive analysis, it embodies an inherent problem of exact delineation, because the multiple dimensions along which one can measure these groups are so diverse, be it advertising intensity, product variety, international involvement; or leadership position, cost position, market growth. Therefore, the use of strategic group in scientific research constitutes more than a mere measurement problem, it is also a problem of agreeing on a defined and univocal concept.

In spite of this criticism, the concept of strategic groups is being used in the model to be developed as a basis for the research in the present thesis. The reason for this stance lies in its ability to capture the essence of a competitive situation for a given firm. The lack of agreement on the dimensions constituting the concept should not overshadow the strengths of the ideas lying behind. In the opinion of this author, the critical dimensions of the strategic groups of an industry should vary from case to case, depending on the specifics of the industry. In the present thesis the problems connected to delineating the competitive arena of the case companies have been accounted for through careful analysis - together with the respondents - of each individual situation (cfr. Chapter four).

2.2.4 International Barriers to Entry

Entry barriers in the local market as described above lead to industry concentration. It may therefore seem as a paradox that international entry barriers have the opposite effect at the international level: they contribute to freeze the industry structure, and therefore to delay a concentration of this structure at the international level. The reason is of course that the two sets of barriers operate at different levels of the industry. In this survey we have included three dimensions of international barriers to entry:

- Channel control
- Culture as a barrier to entry
- Government actions

Channel Control

Whereas product differentiation as an entry barrier has captured the interest of most researchers in the past, channel control has emerged as an ever more important element of (marketing) strategy during the last twenty years. The two are strongly interlinked, because "perhaps the most common [method of channel dominance by manufacturers] is.. the development of strong consumer attraction or loyalty to his products" (Stern and El-Ansari, 1982, p. 408). One major reason for this development lies in the concentration trends that have dominated the trade industry since the 1960s (McGee and Segal-Horne, 1990). In many western countries only a handful of retail chains dominate the market, resulting in a oligopsonistic structure. In the consumer sector this phenomenon is particularly conspicuous. The demand on manufacturers by retail chains to invest in massive media exposure in order to be accepted on the shelves is for newcomers particularly onerous and has prevented many from entering certain segments of the market.

One other trend is the development of (international) franchising (Welch, 1990). Franchising may be seen as the archetypal blend of channel control and product differentiation, through the important role played by the brand in most franchising agreements. This business concept constrains the entry for outsiders into the marketing channels set up by the franchising contractual partners, and as such may be seen as an obstacle to market access. The system is particularly well developed in the gasoline market, but is also present in sectors like fast food (McDonald´s, Burger King, Pizza Hut, etc), soft drinks (the Colas), clothing (Benetton, Hennes&Mauritz, etc.).

Channel control is particularly critical in international markets because new entrants from foreign countries have to establish a customer base by "stealing" more or less loyal buyers from established producers through a network which is not yet built. Distribution channels and, by extension, networks at large constitute critical impediments to newcomers in the international market arena (see for instance Cavusgil, 1983; Solberg, 1988). One theoretical avenue leading to this conclusion is offered by the work of Reve and Stern on the workings of networks (1979). This is partly underpinned by "IMP-school" with the seminal work of Håkanson et al. (1982). Their findings of the importance of the relations at "all" levels of the company between buyer and seller in the international market place suggest that cementing the bonds between the parties considerably reduces the transaction costs and represents a quasi-internalisation of the market. According to Hallen et al. (1990):

> "The basic implications of the model is that industrial marketing and industrial purchasing are long-term processes in which the parties gradually and mutually commit themselves to business with each other. This implies that there is a fundamental difference of being an outsider and an insider in the market" (p. 188-89).

One keyword in this context is interpersonal links. These links seem to exist in spite of differing perceptions of the network participants´ actions both between and within organisations (Ford and Thomas, 1991). The `switching costs´ by accepting a marginally better offer will be too high.

Other evidence of the importance of networks, be they formal or informal, is drawn from the experience of Western companies seeking market penetration in Japan; many feel they meet the "wall" because of the strong priorities given the members of the keiritsu (Kverneland, 1986). Also in

Europe, there are many counts of more anecdotal character of firms not being able to penetrate markets because of close relationships between the existing players in the market, the German market being mentioned as particularly inaccessible in this context. The role of control by major banks in Germany, the existence in Belgium of large holding companies and in France of enterprise groups with subcontracting relations parallelling those in Japan have been mentioned as having an impact on industry structure (Caves, 1982). The effect of these bonds in national markets is to delay if not market entry, so at least market *penetration* of foreign entrants, and therefore to maintain the industry structure of the individual country.

Culture as Barriers to Entry

Culture is another factor which hinders or delays market foothold by foreign entrants. However, many writers hold that the developing "global village" will gradually dissipate the effect of these cultural traits and will therefore on the contrary constitute a major driver toward a more concentrated industry on a global basis. In fact, Vernon´s product life cycle (Vernon, 1966) leads us to conclude that a homogenisation of consumer patterns in different countries will eventually take place, thus reducing the barrier effect of different cultures. Moreover, Dholakia and Firat (1988) suggest a model whereby the supremacy of MNEs will lead to a supply led homogenisation of demand patterns in the world.

Also, more commercially oriented surveys identify trends toward a more unified consumption pattern in various parts of the world. CCA - Centre Communication Avance (1990) find in their survey of 20,000 European consumers that 46% regard themselves as modern and open to change, presaging an emerging pan-european culture. Landor Associates of London (1990) assert that whereas ten years ago only Coca Cola could be regarded as being a global brand, there are today 19 brands which deserve that characteristic.

In spite of these models and findings, and in spite of the influential writings of Levitt (1983) and Ohmae (1985) on the increasing standardisation of consumer habits around the world, there is little empirical evidence that such trends are conspicuously important in determining demand patterns (see an excellent overview by Usunier, 1990). Rather on the contrary, going somewhat underneath the surface manifestations of buying patterns in consumer markets, both the motives leading to purchase (affecting the communication strategy of MNEs in international markets), and the types of products effectively bought (determining the product mix of the MNEs) differ substantially from market to market.

Thus culture seems to pervade the behavioural pattern of consumers much more than for instance life styles (Sheth and Ashgi, 1985). Even in product categories like cars, the composition of market segments seem to vary substantially from country to country even within Europe, with evident consequences on market strategy for the MNE (Kern et al., 1990). In his major study, Culture´s Consequences, Hofstede (1980) endeavours to categorise 40 (and in later editions 50) national cultures according to four dimensions: uncertainty avoidance, masculinity, individualsim, and power distance. Hofstede´s work deals primarily with management cultures in the participating countries. As such it is an important manifestation of market imperfections taking the form of lack of knowledge and uncertainty within the management team about foreign cultures, which in turn inhibit or make more costly FDIs in foreign lands. It is, however, also possible to, if not infer his findings to the field of consumer behaviour, so at least discuss possible implications for the marketing field. The main conclusion is that culture does play a role, and that countries are still a long way from converging into a `global village´. Therefore, cultural differences are still supposed to have a great impact on companies´ ability to enter new markets and, hence, the structure within the industry.

Government Actions

Governmental policies give in various ways the legal framework of industry structure. Antitrust legislation, procurement practices, research policies, patent legislation, tax and tariff (and general trade) policies, regional development policies and policies toward small and medium sized businesses etc. impact in different ways on industry structure (Scherer, 1980).

It is the field of trade policy which most directly is of interest in the context of international industry structure. Organisations like GATT, EU and other less ambitious trade arrangements, based on Ricardian and neoclassical beliefs of trade creation, have set the rules of world trade since World War II. Partly as a result of GATT, tariff barriers have been reduced to a level - between 3 and 5% in the Triade countries - where they represent "no longer the main impediment to free trade" (Grimwade, 1989, p. 351). In the same period, from the early 1950's till today, world trade has increased about threefold in real terms.

The gains of economic integration on international trade have been the subject of many studies. The general impression is that these are positively related (Balassa, 1967; Drèze, 1960; Verdoorn, 1961). However, Grubel and Lloyd (1975) and Greenaway (1987) find that UK's intraindustry trade with the EC increased more rapidly before her entry into the Community than the years after, and also more rapidly than the internal increase in the intra-EC exchange during the period before her entry. On the other hand, the regional trade within EC has increased more during the 80's than with third countries (Solberg, 1991). Concurrently with this development, free trade has been hampered by other types of hindrances. Suffice it to mention bilateral arrangements like "voluntary export restrictions" (VER) and "orderly marketing agreements" (OMA), Multi Fiber Agreement (MFA), or unilateral measures like industry subventions, technical barriers, antidumping tariffs, quotas, etc.

The effects on industry structure of these organisations and measures have only to a limited extent been subject to analysis. Economic theory suggests that trade liberalisation leads to increased specialisation and as a result a more concentrated industry structure world wide within more narrowly defined industry sectors will ensue (Krugman, 1989). As we have seen, there has been some work on economies of scale and increased intraindustry trade, but so far research has failed to give significant empirical support (see Greenaway, 1987). On the other hand, the effect of barriers to trade on international direct investments seem to be positive. Horst (1972a) found a relationship between Canadian tariffs and the market shares provided by FDI of US companies. Swedenborg (1978) found similar results in her analysis of Swedish firms. Research by Scaperlanda and Mauer (1969, 1963) did not find support for the hypothesis of increased US investments and decreased exports as a result of the creation of the EC. Indeed, the FDIs did increase, but so did also exports from the US. However, Schmitz and Bieri (1972) investigating the share of US FDIs to benefit from tariff preferences did find support for this hypothesis.

Furthermore, general economic theory suggests that market imperfections as imposed by protectionist or export promotion measures - in the absence of strong antitrust regulations in most countries outside the US - leads at the national level to concentration of certain industry sectors in a long range of countries, and hence to monopolistic rents. This is what can be observed in areas like the postal services, air carrier, telecom, energy and electricity markets. Walters and Monsen (1979) show the strength of monopolies or strong oligopolies in countries where governments have either a direct ownership interest more often than not accompanied by subsidies/trade restrictions, or for internal political reasons opt to support sectors of the economy vulnerable to foreign competition. The progress within the Single Market is advertedly intended to break these monopolies (Emerson, 1988).

2.2.5 The Globalisation of Competition and Industry Structure

The determinants of industry structure have been described both generally and in the international market. We will now discuss the globalisation of industries. In fact, one may perceive the development of the global industry structure in the tension between these different types of barriers. The general barriers to entry (and mobility) have the effect of promoting the concentration of industry structure at the national level, whereas the international barriers to entry (channel control by incumbants, culture, government actions) have the opposite effect, obstructing a consolidation of industries across borders. The gradual liberalisation of national economies, and the alleged converging demand patterns in the world have created a better seed soil for the growth of international oligopolies. The section starts with a brief description of the development since WWII, seeking thereafter a definition of global industries. It also discusses the globalisation drivers that have been identified by different authors. It is appropriate in this context to draw attention to the fact that this section does *not* deal with global strategy. The purpose is here to discuss the factors impacting on a development leading to *global industry structure.*

Development of Global Industry Structure

Since World War II the structure of world industry has undergone a gradual shift, from being mostly nationally oriented in almost all the sectors of the economy to in many cases a global industry structure. The main features in this development are that the markets are becoming gradually more interdependent, and that more powerful multinational companies are playing a bigger role in an increasing number of industries. Many of the above mentioned factors (economies of scale, mergers and acquisitions, government policies, technological change, cultural commonalities) have contributed to this development. The underlying economic growth during this period - in both per capita output and income, employment and international trade and investments - has been the paramount feature of the countries in the Triad and is well documented in international statistics (GATT, IMF, UNCTAD etc). Another important feature of this development is the shift in power from the US to Japan, and in part also to Europe.

Section 2.1 concluded by outlining how different forces (reduction of trade barriers, exploitation of scale economies and transfer of technology) promote intraindustry trade and the development of international oligopolies. Chandler (1986) summarises three factors having a decisive influence on the development: market change, technological change and transfer of managerial methods.

> Concerning the first one, market change, the melting away of tariff barriers from a prewar 40% to insignificant levels in the nineties is one important and well known factor. Less considered is the breakdown of prewar cartels in Germany and dismemberment of the *zaibatsu* in Japan. This development together with the prohibition in the US during and after the WWII against agreements allocating markets and international trade have played an important part in this context. By these rulings, the US authorities "weakened the position of US machinery makers, particularly the manufacturers of electrical

equipment in foreign markets" (Chandler, 1986, p.440). Later, the EC regulation of competition, although less strict than the one practised in the US, underscored the commitment by the Europeans to limit market power.

These regulations accompanied by a market more open to international competition and transfer of technology helped create new and previously unknown players in the market. The ability of the Japanese to adopt and exploit Western and particularly US technologies is a distinct feature in this context. Also the advent of information technologies (both computer and communication) has dramatically improved the ability of companies to coordinate and control their global activities.

Finally Chandler attributes transfer of managerial capabilities to countries like Japan an important part in the improvement of her competitiveness.

Although multinational companies emerged already late in the last century, the advent of global firms and global industry structure did not catch the attention of management researchers and writers until the early 1980s. In this section we will limit the discussion to that of a global industry.

Several authors have tried to define the term "globalisation". In Levitt's world, globalisation means the process of homogenisation of demand and increasing economies of scale, forcing companies to standardise their production and marketing at high levels of output in order to cut costs and thus gain a competitive edge. He maintains (without really giving any scientific evidence) that homogenisation of markets occurs at an increasing rate, and his uncompromising conclusion is that "companies that do not adapt to the new global realities will become victims of those that do" (1983, p. 102).

The issue of standardisation or adaptation of the marketing effort in international markets has caught the attention of researchers long before this (Buzzell, 1968; Fayerweather, 1969). However, Levitt focused on one point which was not emphasised earlier, viz. the effects of globalisation of the firm on the competitive structure. He asserts that the end result of superior economies of scale is a concentration of the business in the hands of a few actors in the market place, these latter being the ones that have the strength and the competence necessary to exploit scale advantages. Tinsley of the McKinsey group echos Levitt´s viewpoints, but softens them somewhat by stating that (1986, p.10):

> "Globalization describes the evolution of supply, demand and environmental factors which are driving companies toward operating *as if* a homogeneous worldwide market exists in their industry" (italics added).

Porter (1986) also sees the globalisation trends, but calls for a global strategic approach coupled with local adaptation, by some researchers ingeniously called "glocalisation". In his view the "globality" stems more from the supply side than from the demand side. His definition of global strategy is one:

> "in which a firm seeks to gain competitive advantage from its international presence through either a concentrated configuration, coordinating among dispersed activities or both." (1986, p. 29).

Later (1986, p.33) he states that:

> "industries globalize when the benefits of configuring and/or coordinating globally exceed the costs of doing so".

This leads us to adopt a definition that emphasises the dynamism of the competitive forces. These take place in spite of international barriers like market disparities and government regulations. These market imperfections have been overcome by MNEs investing and joint-venturing abroad. It is in this context relevant to make allusion to the literature on foreign direct investments (starting with Hymer, 1960, see section 2.1). Two processes have been prominent in this context:

- The international oligopolisation of certain sectors of industries, making competition look more like a global "game of chess" (Knickerbrocker, 1973) than pure competition in individual markets.

- The political power that some of these industries (and individual companies) have in international trade conflicts and negotiations, and the role they play in forming the regulatory and institutional framework of international trade (eg. Europe - 92, European R&D programmes, IEPG - Independent European Programme Group for standardisation of defense contracts, lobbying activities etc.).

We may therefore synthesise the different strands of writings into one definition of globalisation:

> **Globalisation is a process by which players in individual industries seek to gain significant shares by building structural barriers to entry and by overcoming barriers in international markets, the eventual result of which is international oligopolisation of the same industries.**

This definition stresses the conduct part of the S-C-P model and therefore signals that globalisation not only is a process which is exogenously determined by the gradual reduction of international entry barriers. This process is as much endogenously driven within the participating firms.

The study of globalisation has therefore to analyse both the international industry structure and the underlying factors leading to this structure.

Global Industry Structure

Morrison (1989) lists a host of researchers discussing the existence and definition of global industry, based on dimensions varying from patterns of strategy of the firms (eg. standardised marketing programmes, competitive position or presence in key Triad markets), to structural factors (eg. global oligopoly or intra industry trade share of industry output).

Table 2.3: Definitions of Global Industries According to Dimension and Authors

Dimension	*Authors*
Level and degree of international competition	Hout et al, 1982 Hamel and Prahalad, 1985 Bartlett, 1986 Flaherty, 1986 Doz 1987 Jolly, 1988
Standardised product as a result of international competition	Davidson and Haspelagh, 1982 Hout et al, 1982 Cvar, 1984 Porter, 1986 Porter and Takeuchi, 1986 Prahalad and Doz, 1987
Level of international trade	Prescott, 1983 Cvar, 1984 Ohmae, 1985 Porter, 1986 Prahalad and Doz, 1987 Bartlett and Ghoshal, 1987 Jolly, 1988

Source: based on Morrison, *"US Business Level Strategies in Global Industries"*, PhD dissertation University of South Carolina, 1989.

For instance, using the case of Goodyear and Michelin, Hamel and Prahalad (1985) distinguish three concepts (p. 97):

- "Global competition, which occurs when companies cross-subsidize national market share battles in pursuit of global brand and distribution positions.
- Global businesses, in which the minimum volume required for cost efficiency is not available in the company's home market.
- Global companies, which have distribution systems in key foreign markets that enable cross-subsidization, international retaliation and world-scale volume."

These definitions, although capturing the core of why certain firms internationalise, lack paramount elements like interdependence of markets and industry structure. The case of cross-subsidisation is but one instance where global competition occurs. Building networks and brand recognition (ie. building structural entry barriers) are other tools being used by MNEs to assure their position in world markets.

Sölvell (1988) offers another and more comprehensive definition saying that

> "Global competition implies competition covering the world'- i.e. an extreme case of international competition. In global competition national markets have become interdependent implying that corporate activities in one market affect corporate activities in all other national markets. These interdependencies exist in spite of heterogenous demand, the existence of trade barriers and other fragmenting forces" (p. 182).

Using the case of the car industry Sölvell (1988) holds that - despite numerous cross-border and cross-continental links in the industry, and despite uncontested economies of scale, the car industry cannot be termed global. This is evidenced by the fact that national car manufacturers have commanding market shares in their home markets. In fact, it is difficult to perceive how a marketing campaign for Volvo in West Germany will entail any dramatic reactions by Fiat in Denmark, or British Leyland in France. The interdependence in the automobile industry is therefore moderate - at best.

Globalisation Drivers

Many writers have addressed the question of which factors drives the globalisation of industries. Leontiades (1986) mentions different drivers (see page 2), although without trying to systematically place them in specific categories.

Cvar (1986), having analysed the strategies of twelve companies, sets forth to identify the causes of globalisation (or globalisation drivers) and to "describe the process of evolution of an industry to the global state" (p. 483). Labelling demand homogenisation and economies of scale the two factors leading to globalisation of an industry, she discerns between environmental triggers and strategic triggers in explaining how these factors come to play a role.

Cvar divides the environmental triggers divided into four categories:

1. Narrowed economic and social circumstances (economic growth leading to the NICs and uni-attribute demand).
2. More concentrated distribution channels.
3. Technological development permitting standardised, low cost, high volume manufacture of products.
4. Less reluctant governments toward cross-border transactions.

The strategic triggers mentioned by Cvar are the following:

1. The industry players' ability to identify global market segments.
2. Redefinition of the product from being a national product to a global product.
3. Consolidation of supply resources in order to gain economies and bargaining power.

Hamill (1992) summarises the driving factors in the globalisation of industries into two broad categories: macro or environmental and micro or company specific factors. These are listed in table 2.4:

Table 2.4: Globalisation Drivers

Environmental factors	*Company specific factors*
*Rising income levels in many countries stimulating demand of foreign products	*Limited domestic markets
*Reduced barriers to trade	*Market size and growth abroad
*Formation of regional trading blocks and ties between countries	*Technology complexity necessitating larger markets to closer economic spread R&D costs
*Exchange rate stability (until 1971)	*Shortening of product life cycles
*Improvements in global transport and communication systems	*Competitive forces including "follow-thy-leader" and "exchange of threats"
*(Some) convergence in consumer demand	*Low cost sourcing and increased scale
	*Managerial motivations (prestige etc)

Based on Hamill, 1992

Allusion is already made to Yip (1992), who in his comprehensive framework sums up much of the discussion in four globalisation drivers:

market drivers, cost drivers, government drivers and competitive drivers. These are shown in figure 1.1.

However, the writings and research in this field have been either anecdotal, very general or case oriented. There are few or so studies endeavouring to identify the strength with which each of the globalisation drivers impacts on the globality of the industry.

One exception is Sölvell´s (1987) dissertation on entry barriers and foreign penetration. Sölvell analyses the internationalisation of two branches of the electrical engineering industry and makes the distinction between barriers to entry and barriers to penetration. He states that

> "when fortresses are penetrated by foreign firms (and not just entered) competition is truly becoming international. Entry footholds are not enough to integrate national industries". (p.219)

Sölvell further concludes that what he terms international change agents, eg. firms taking "initial and early actions of penetrating foreign industries characterised by high entry barriers" (p.230)

> "have played a crucial role. Through their entry and further penetration into foreign oligopolistic industries, national industry barriers have been partly eroded. In the short run, the concentration in the host industry is reduced, but on the other hand, the evolving international industry might turn out to be highly oligopolistic" (p. 235).

In this way Sölvell places much more weight on factors internal to the firm when trying to explain the globalisation of industries than has been previously accepted, and indirectly he deemphasises the part played by "traditional" globalisation drivers like homogeneisation of demand, economies of scale and so on.

> "....we have not come across any highly decisive environmental forces (related to the home industry or home country) and it is thus natural to turn to factors internal to the firm" (p. 231).

Of more recent date is a study of US and Japanese multinational companies made by Yip and Johansson (1994). This study relates the driving forces to the formulation of strategy, with regard both to the process and to the content. Of the four globalisation drivers mentioned in the study - market, cost, government and competitive move drivers - only the first two could exhibit a high positive coefficient of correlation (of .88 and .39 respectively) with overall industry globalisation. The two other drivers, government and competitive moves, appeared in this study to have negative and limited coefficients (-.11 and -.13). It is interesting to note that the factor which comes closest to Sölvell's (1987) lauded "international change agent", viz. competitive moves, exhibits adverse effects on the globalisation of industries in Yip's and Johansson's (1994) analysis. A direct comparison of the two studies is difficult, however, because of different research scope and design.

2.2.6 Summary and Conclusions

This section has brought in contributions from the IO school of thought in order to illucidate factors impacting on competitive structure in general, and - more specifically - in an international setting. This has led us to literature on strategic groups and mobility barriers. Furthermore - by introducing the international dimension - it has helped us shed light on the role played by international barriers to trade (channel accessibility, culture, govenment) and by the globalisation drivers breaking down these same barriers.

All in all, there is a lot of ambiguity in the search of definitions of global industry and competition, and its corollaries: global firms, global strategies, global marketing etc.[4] There seems, however, to be a blend of definitions identifying the "state of globality" (structural dimension) and the "globalisation drivers" (dynamic dimension). Using these two categories the following indicators may be presented:

[4]Section 2.4 will revert to the discussion on global *strategy* and global *management*.

State of industry globality

Industry structure
Economies of scale
Degree of intra industry trade
Foreign direct investments in the industry
International price sensitivity in the industry
Market shares held by foreigners in national markets

Globalisation drivers

Demand homogeneisation
Government actions (GATT, EC, capital markets)
Firm activities in global markets
Technological environment
Infrastructure (communication)
Development in channel/customer structure

This being said, there are forces that run counter to globalisation of industries. The most obvious one mentioned in this review is cultural barriers together with the "neo-protectionistic" tendencies experienced since the last part of the 1980s (for instance, trade disputes between US-Europe-Japan).

Let us now revert to the two questions put forward in the introduction to this section:

- Why are certain industries concentrated in a few players, whereas others are much more fragmented?

- Why are international oligopolies more conspicuous in some industries than in others?

The first question may be answered by introducing the model proposed by Buigues and Jacquemin (1989). They introduce a two by two matrix where the dimensions are 1) number of possibilities for differentiation and 2) advantages of being in a leadership position, and suggest a categorisation of different industries in the matrix. They borrow more or less directly concepts from the IO paradigm, reference being made to BCG and Porter, (1985). "Translating" these dimensions to traditional IO-terms one would say degree of product differentiation and economies of scale. Figure 2.7 shows the result of this exercise, and gives examples of industries in each category.

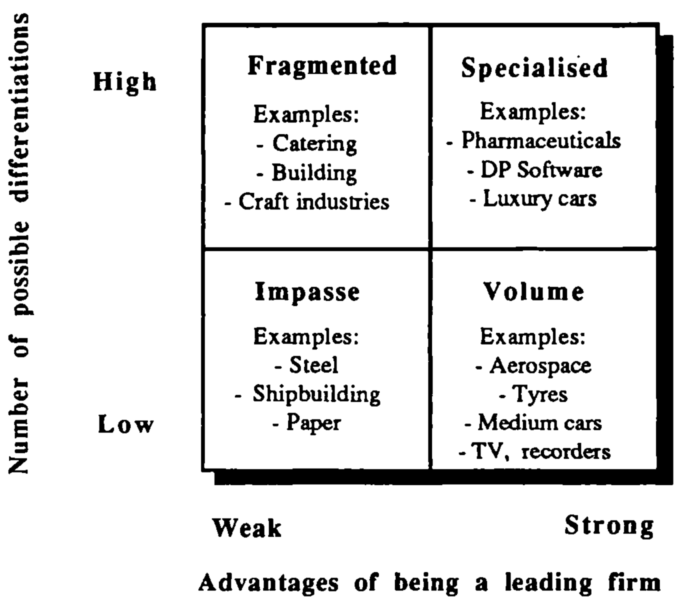

Figure 2.7: Classification of Industries
Source: Buigues and Jacquemin, 1989

- The fragmented industries are those with little potential of economies of scale and with great opportunities for product differentiation. Typical examples are service industries catering to the local market.
- The specialised industries are industries addressing somewhat wider niches - often international - in order to gain the necessary economies of scale.
- Volume industries are often found among oligopolies catering to the international market.
- Impasse industries are those where the advantages of scale have been eroded by the fact that most players have attained the MOS. Possibilities for product differentiation are limited and the winners are firms with absolute cost advantages. These factors have made this category one of the heaviest receivers of state subsidies or protective measures in international trade.

To answer the second question, we may resort to the model suggested by McKinsey. Tinsley (1986) of the McKinsey group introduces a framework of classifying industries according to the potential for globalisation in a two by two matrix. The dimensions used are advantages from global integration (low or high) and advantages from /need for local adaptation (low or high). The result is shown in figure 2.8. One interesting feature of this classification is the "blocked global" situation. In this position general entry barriers like economies of scale and product differentiation are highly present and cultural barriers are limited, denoting structural conditions of global oligopolies. On the other hand the existence of for instance government actions hinders international transactions and therefore the development of interdependent markets. The aircarrier, defence and until recently telecommunications industries are three cases in point.

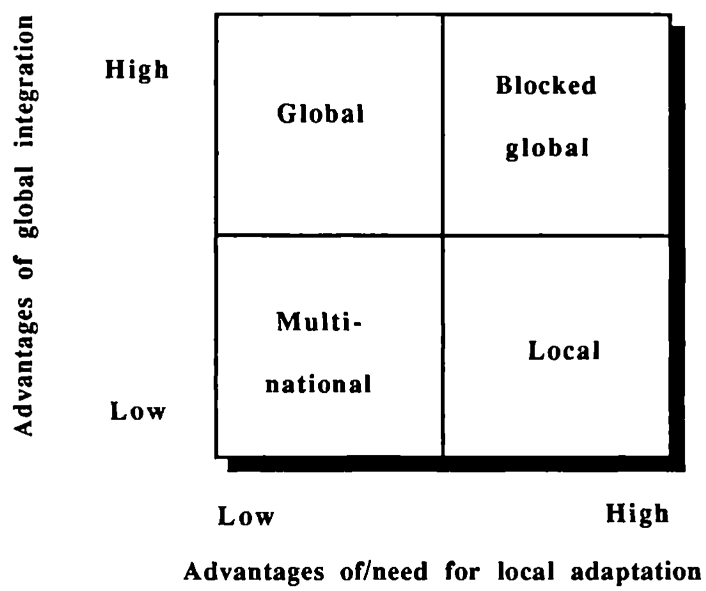

Figure 2.8:Classification of Businesses According to Driving Forces
Source: Tinsley,1986

This model is highly suggestive. However, the factors being used to define the two dimensions are not clearly defined and may even occur in both axes, although with opposite signs. Therefore we will put forward a more clear cut model using concepts from this section: impact on industry structure of entry barriers and of international barriers. In this way, we end up with a slightly different model, making it possible to use a typology of industries more compatible with constructs from the IO school of thought.

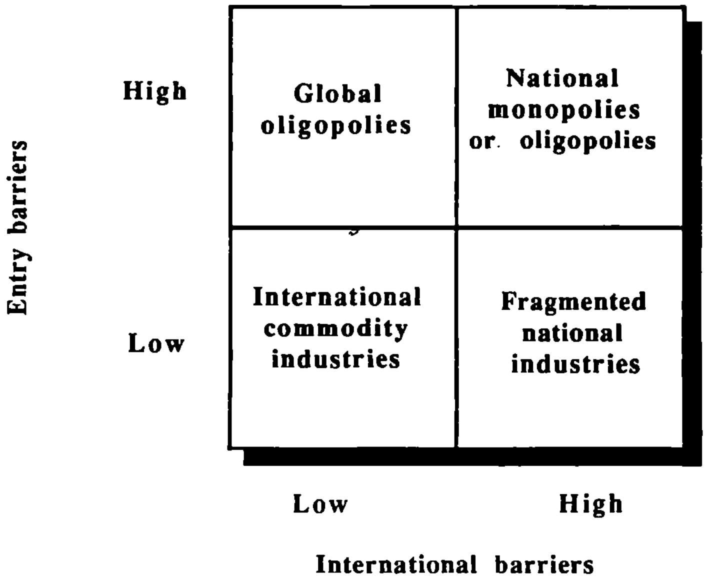

Figure 2.9: A New Typology of Industries in International Markets

Writings on strategic groups and globalisation drivers contribute strongly to the understanding of the emergence of global industry structure. Including these concepts is therefore not only desirable, but may be considered a mere necessity in order to study strategy responses to the globalisation trends.

2.3. Internationalisation Process and Export Success

With antecedents in the late fifties (Penrose, 1959) and in the sixties Cyert and March (1963), many writers during the late sixties and up to the beginning of the eighties have sought to explain the international involvement of firms as a sequential, stepwise process leading the firm to spread its activities to more and more markets, culturally and geographically more and more distant, involving ever more committed and risky modes of entry. The proponents of this school of thought have produced a rich body of research which gives insights into different aspects of this process. Much of the empirical work has been critisised for lack of methodological rigour and for the absence of conceptual and theoretical frameworks to guide research (Cavusgil and Nevin, 1981; Andersen, 1993). This may be one reason why the empirical evidence from the different studies sometimes show contradictory results. Nevertheless, the diversity of studies gives us a multi-faceted insight into the different aspects of the internationalisation process of firms.

The internationalisation process paradigm is important to the present study in that it suggests that management passes different stages of maturity or preparedness to make decisions in an international - and in many instances, globalising market environment. This section will review the main contributions to this research tradition, which has come to be known as the Uppsala School. Figure 2.10 gives a picture of the progress of the section.

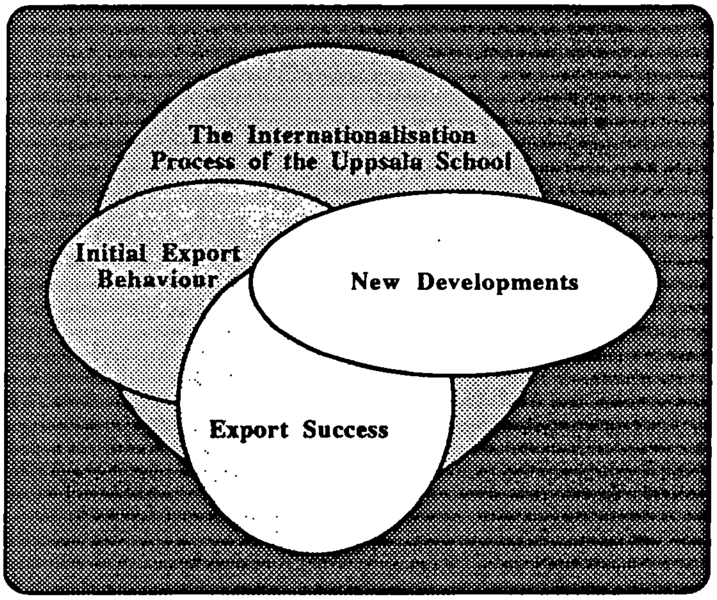

Figure 2.10: Relationships Between Research Issues in International Marketing and Management

Initially it will describe the main contentions and critics of this school of thought. In a second section it will in somewhat more detail give an account of the writings on export barriers, the initial export phase and the process of further internationalisation. Furthermore, a review of writings on success in exports is added, followed by a discussion on the different contributions to the development of new research orientations in international marketing. It is possible to see links between the new developments of the paradigm (seeking to include the external competitive environment - Johanson and Mattson, 1985) and global strategy and management. There are also clear links between the writings on export success and global strategy and management, since both are concerned not only with the "whys" of the original Uppsala School, but also with the more normative "hows". However, literature on global strategy and management is described in more detail in section 2.4.

2.3.1 The Internationalisation Process of the Uppsala School

The seminal work in this field was partly made by the "Uppsala School" with contributions from Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977). Their findings, based on four case studies of Swedish MNEs, suggest that there is a loop process between the market and the firm (whereby market knowledge leads to commitment decisions in the firm, the ensuing marketing activities in their turn leading to increased market commitment and knowledge, and so on). This model has been widely accepted in the literature. The theory posits that the learning process comes about primarily through experience in the market. "Experiental knowledge generates business opportunities and is consequently a driving force in the internationalization process" (Johanson and Vahlne, 1990, p.).

Before these early contributions, a number of American researchers had already introduced the basic ideas of a learning process model. Aharoni (1966), analysing American FDI´s, showed that the internal processes within the firm, rather than the economic "realities" were determining the pace and the direction of FDI´s. His contention was that:

> "..in organizations composed of individuals and groups within a certain culture, faced with uncertainty, operating on a basis of incomplete information, and constantly pressed by ongoing activities, one simply cannot behave in a rational way as the term is defined in economic theory." (Aharoni, 1966, p. 9)

He asserts that the investment decision rather emerges at some point in time as the cumulative result of gradual commitments made by individuals and groups within the organisation. Also Behrman (1969) and Vaupel (1971) identify the gradual commitment in international markets made by American firms, starting with sales subsidiaries, service facilities and assembly plants to be followed by a gradually more integrated manufacturing unit.

In 1973, Bakka made the first attempts to introduce a stages model of internationalisation. His article based on Norwegian experience was of anecdotal character, and has therefore received little attention in the literature. He divided the process into four stages: 1) experimental exports, often triggered by an unsolicited order, 2) extensive exports, characterised by a "hit and run" strategy where the firm ends up with insignificant market shares in a long range of different markets without any plan, 3) intensive exports, where the firm is forced to concentrate on prioritised markets and finally 4) export marketing, where the export activities are integrated in the total marketing plan. Solberg (1986) has later expanded the model to encompass "multinational marketing" as distinct from export marketing in its geographical scope and intensity.

Reverting to the mainstream literature, many researchers identify phases through which the exporter is passing. Bilkey and Tesar (1975) operate with a six stage model borrowing from Roger´s (1962) adoption model: 1) the firm is unwilling to export, 2) the firm is content to fill unsolicited export orders, 3) the firm explores the feasibility of exporting, 4) the firm exports experimentally to one or a few markets, 5) the firm is experienced in these markets, 6) the firm explores possibilities of exporting to additional markets. Different triggers come to play in different stages of the model. For instance, from stage 2) to 3) much seems to depend on the firm´s international orientation, attraction of exporting, and the management "competitive confidence". Entering stage 4) hinges much on the fortuitous order, and entering stage 5) depends on management expectations of exports´ impact on profit and growth, and on perceived obstacles to exporting.

Other writers have introduced variations of this model. Cavusgil (1984) for example, categorised a sample of 70 firms as being experimental, active and committed exporters. Before entering export he discerned two phases: domestic marketing and pre-export stage. Czinkota and Johnston (1986) operate with six categories of firms: the unwilling firm, the uninterested firm, the interested firm, the experimenting firm, the experienced small exporter, the experienced large exporter.

The "Uppsala School" identifies four stages: 1) no permanent exports, 2) exports via agents, 3) exports via sales subsidiary, 4) production in a foreign subsidiary (Olson, 1975; Johanson and Wiedersheim Paul, 1975). These are not immediately comparable to the Bilkey/Tesar framework, as they have another focus: stages of international involvement as expressed by entry modes rather than the internal "psyche" of the management.

Thus, the stepwise approach to international markets seems to have received substantial support by researchers. According to this school of thought, it is the preferred route to international markets because the next step depends on management´s perceptions of market opportunities and challenges acquired during the process. This hypothesis finds some support in Newbold, Buckley and Thurwell (1978), who in their study of 43 UK firms´ first FDIs showed that the route which most safely leads to successful manufacturing units in foreign settings, is the "minitious" one. This route is characterised by the firm starting with direct exports, linking up later on with an agent, taking over after a period of time the marketing responsibilities on its own through a sales subsidiary, and then finally ending up with investing in its own manufacturing unit in the country. The direct route - from home market activities without the intermediate steps to FDI - is the least successful one according to this study.

Also the gradual geographic expansion hypothesis has received support from researchers. Davidson (1980) finds this pattern in his study of US investments abroad. Basically his conclusions are that:

> "Firms prefer [for their foreign direct investments] nations in which they are already active to those in which they are not. In addition firms with extensive [international] experience exhibit less preference for near, similar and familiar markets..... As firms gain experience, the location of foreign investment activity will increasingly represent an efficient response to global economic opportunities and conditions" (p. 18)

This hypothesis has also received support from Luostarinen (1979). He finds that 91.7% of his large sample of 924 Finnish firms made their first entry in countries which are very close in terms of "business distance" (p. 124-152).

In a retrospective article, Johanson and Vahlne (1990) reviews the criticism of the internationalisation process model. For example, the effect of geographic distance has been contested by several writers. Nordström (1990) finds that recent export-starters to a greater extent than in the early seventies enter more distant markets - UK, US and Germany, rather than the Scandinavian countries - as their first choice to establish sales subsidiaries. Engwall and Wallenstål (1988) show that Swedish banks tend to follow one another to different financial centres in the world, more according to oligopolistic behaviour than to the "Uppsala pattern". Banks are of course a special case, where their strategy has been "provider-driven" (international financial centers) rather than customer-driven. Also in the case of advertising agencies, other causes than the gradual geographic expansion model seem to prevail (Terpstra and Yu, 1988). In this case market size, oligopolistic behaviour and following-customer-abroad explain the locational pattern of the agencies´ international expansion. (It is however interesting to note that both Engwall and Wallenstål (1988) and Terpstra/Yu (1988) give evidence of support to the gradual commitment process of the Uppsala School - see also later in this section). Further more, Benito and Gripsrud (1992), using Hofstede´s (1980) cultural dimensions, found that FDIs of Norwegian firms did not follow the "neighbouring" market pattern in their investment expansion abroad. However, once they had made their first investment abroad in one specific location, the next investments tended to geographically circle around the first foreign estblishement.

Turning now to the gradual process of international involvement, some writers allege that the Uppsala School is too deterministic (Reid, 1983; Turnbull, 1987; Rosson, 1987). They claim that other factors than internal knowledge, such as market conditions, affect the choice of mode of entry and expansion. For instance, the model does not take into account the fact that in certain industries interdependencies between different country markets may play a major role in forming the international expansion behaviour of firms (Johanson and Mattson, 1986). Market interdependencies affect the process in that the firm is forced to take into account a larger number of countries when approaching new markets.

Reid (1983) and Turnbull (1987) assert that the internalisation theory is more powerful in explaining the diversity and variations in internationalisation behavior than the process model. However, this critique misses the fact that the process model first and foremost deals with the initial stages of a company's internationalisation. Other explanations may therefore come into play at later stages in the process. Forsgren (1989) argues along these lines when he asserts that the internationalisation model is perhaps applicable in the early stages of the process, but when the firm has gained a certain level of experience and knowledge (through activities in a number of countries), management can allocate resources on the basis of "real" market conditions. The way over to the global management school (see later, section 2.4) and to the eclectic paradigm - presupposing perfect information - (see secion 2.1) is in this instance not very long.

One observation to be made from the internalisation theorists is that they invariably seem to favour FDI to licensing. Uncertainty of the worth of the advantage and the cost of policing the licensees represent for them serious impediments to licensing. This is a very static point of view. It has been shown that it is possible to devise a royalty scheme which at least in theory earns the same rent as FDI in a monopolistic market (Casson, 1987). It is also possible to contain potential defaults of licensees by supplying to the licensees a patented or otherwise proprietary component which is indispensible for the manufacture of the licensed products (cfr. the syrup of Coca Cola). Furthermore, successful licensors often build a "family" of licensees, where all share R&D developments of the "family members" through cross-licensing agreements, or even through compulsory, non-refundable feedback to the licensor of developments made by licensees. Under such circumstances the market is - if not fully - so at least quasi-internalised within the family and breaching out of the family is sanctioned by the loss of access to R&D achievements. This is in line with Welch and Luostarinen (1990) who state that: "the type and extent of exchange between the parties may end up as something far broader and deeper than originally envisaged or set out in the [original] licensing agreement" (p. 61).

Even though the eclectic paradigm partly succeeds in explaining why firms invest abroad rather than seeking other entry modes (licensing or exporting), it does not really beg the question of what triggers this investment in the first place. What is it that leads firms to contemplate serving other markets in the first place? This is one of the basic questions sought answered by the internationalisation school of thought.

2.3.2 Initial Export Behaviour

Let us now revert to the research on the mechanisms of internationalisation, and in somewhat more detail deal with research concerning the initial phases of export behaviour. In this context, there are two strands of research findings: one is trying to identify how so-called export inhibitors come to play in exporters and non-exporters, the other one is seeking to illucidate how the process gets initiated. This review is important to the present research issue. Small and medium sized companies - often with limited export experience - facing globalising world markets are particularly vulnerable to the initial export phases, and it is therefore critical to understand the underlying factors leading to export start.

In a review of the literature on export barriers, Seringhaus and Rosson (1990) wind up the discussion stating that there are few common denominators opening for clearcut conclusions. The results seem to differ with the specific situations in which the studies have been carried out. In the case of Turkish exporters (Bodur, 1986), for example, the concerns expressed were centered around factors like infrastructure and lack of institutional support, whereas in Australia the major obstacles regarded the price competitiveness of the exporters (Wilkinson and Barrett, 1986). Comparing German and Japanese managers of exporting firms Dichtl et al. (1986) found that both countries agree on price, personnel and distribution as being among the most critical problems in international marketing. There were, however, also some differences in opinion: competition was ranked as difficulty number two in Germany, and was not included in the "top five" by the Japanese managers; language popped up as number four in Japan and was not mentioned in Germany. Comparing two studies of export managers in US and Canada shows few similarities, except for problems in locating a representative (Rabino, 1980 and Kleinschmidt and Ross, 1984). It seems as though the Canadians encounter more problems at the strategic level, the US firms being more concerned with operational matters.

Comparing exporters with non-exporters or companies in different stages on the internationalisation ladder gives some insight into the problems encountered in initiating exports. Burton and Schlegemilch (1987) suggest that non-exporters have a negative precondition of exporting, leading to screening of relevant information about export opportunities. Furthermore, they claim that exporters tend to be more market-oriented and non-exporters more production-oriented. British Overseas Trade Board (1987) found in a survey that managers of passive exporters tend to have a low self-image (unsuitable product, no confidence/ experience, no demand etc.). In another study, Kaynak and Stevenson (1982) found that the non-exporters encounter problems which may be classified as strategic (competition, resource, knowledge) whereas the exporters cite inhibitors that have to do with the "consummation of foreign sales, including regulations, business practices, and distribution" (Seringhaus and Rosson, 1990, p. 157). However, Kedia and Chhokar (1986) found no pattern in the differences between exporters and non-exporters except for export procedures which were ranked as the most important inhibitor for non-exporters (ne) and only number six for exporters (e). Among the five most important inhibitors in this survey, three are the same in both categories: how to market overseas (ne=2/e=2), business practices abroad (ne=2/e=3), information on prospects and markets (ne=4/e=1).

As a conclusion it is fair to say that there are few generic inhibitors to export that discriminate between exporters and non-exporters. On the contrary, the impediments to exports seem to vary a great deal between countries and situations. Some of the studies suggest that non-exporters have more fundamental problems, but no unambiguous pattern seems to emerge. Seringhaus and Rosson (1990) divide the barriers to export to three categories: 1) motivational, 2) informational and 3) operational/resource based. They allege that motivational barriers mostly affect non-exporters, but "may also stand in the way for further market or product expansion among current exporters" (p. 154). They argue that a fourth inhibitor to export is knowledge, defining it as a "stock of capabilities" a company possesses.

> "The company that is knowledgeable about exporting will be able to determine what information to collect and how to use it, to a greater extent than their less knowledgeable counterparts. While based on information then, knowledge is clearly a much broader concept, guiding the company in all its endeavours. In a sense knowledge is a special resource that is present to varying degrees in companies. Like other resources, we should recognize that, without husbanding and replenishment, export knowledge will be depleted over time. Thus knowledge is a fourth export barrier for companies" (pp. 154-55)

Turning now to the question of export behaviour, there seems to be general agreement that in the initial stages, the firm is driven by external stimuli such as unsolicited orders from foreign customers, export promotion measures from the government or local authorities, or an untenable competitive situation in the home market , etc. (Bilkey and Tesar, 1977; Welch and Wiedersheim-Paul, 1980; Piercy, 1981; Solberg, 1987; Seringhaus and Rosson, 1990). Some writers regard the export decision to be innovative (Welch and Wiedersheim-Paul, 1980; Lee and Brasch, 1978; Simmonds and Smith, 1968). Lee and Brasch (1978) distinguish between problem oriented and innovation oriented export initiation. The problem-oriented approach involves recognising the need for growth, evaluating different growth avenues (such as exports), analysis and internal goal-setting etc. Espousing the view of Rogers (1962), innovation is the result of awareness through external stimuli such as social contact, rather than internally generated. Lee and Brasch (1978) conclude in their study of 35 Nebraskan exporters that more than two thirds of the firms surveyed took an innovation-oriented stance toward initiating exports, i.e. they relied primarily on external stimuli. One third of the sample took a problem-oriented approach, which indicates that internal stimuli also are important in initiating exports. In a more general manner, internally generated growth may stem from internal pressures within the organisation. In the words of Edith Penrose:

> "If there is no scope for the full use of the capacity of individuals to perform administrative services, to plan and execute production programs, to sell the firm´s products, to test new ideas, a pressure to expand will be exerted on the firm" (Penrose, 1959, p. 54).

Wiedersheim Paul, Olson and Welch (1978) and Welch and Wiedersheim-Paul (1980) contribute to the understanding of the initial export phase by "dissecting" the pre-export decision process. Their conclusion - perhaps not surprisingly - is basically that preparing for exports pays off. The preparatory activities have a self-perpetuating effect on the process, making the management team more committed. This is especially true where the owner-manager is directly involved (Simmonds and Smith, 1968). Furthermore, Welch and Wiedersheim-Paul (1980) state that "once a firm establishes its export programme, it seems more likely to continue the activity" (p. 334). These hypotheses are supported by Bilkey and Tesar (1977) who hold that the experimental export period after the initial move to international markets is typically two years, export sales representing less than 10% of total sales. Cavusgil (1984) in his definition of experimental exporter uses 10% as one critical criterion. This is in compliance with Norwegian research (Grunne and Sollie, 1986), which shows that companies exporting less than 15% are characterised by stagnating or declining international sales. The group of exporters selling more than 30% of its output in foreign markets tend to increase this share even further, the group in between showing variable results as to export sales growth. The critical threshold seems therefore to lie somewhere between 10-15% and 25-30% of exports before the firm realises the necessity of management commitment to this activity (or "export programme" in the words of Welch and Wiedersheim-Paul - op. cit.).

To what extent is it then possible to `leapfrog´ stages in the internationalisation process? One should of course first ask the question of why it is necessary to jump some stages on the way to international markets. The answer to this latter question is that in some market settings characterised by extremely high growth or short product life cycles it is compellingly necessary to get a broad (and therefore in most cases international) market coverage in the early phases of the life of the product in order to 1) capitalise on R&D investments and 2) preempt competition from gaining market share (Kogut, 1990). For SMBs in the high technology sector without extensive marketing networks in foreign markets and with limited experience in international business such requirements may seem insurmountable in the wake of the above discussion on gradual commitment and international involvement of the firm.

To revert to the first question of the possibility of leapfrogging stages, Nordström (1990) and Benito and Gripsrud (1992) show that Scandinavian firms make `geographical jumps´, and Johanson and Vahlne (1990) assert that financial strength may offset some of the organisational weaknesses within `experimental exporters´ (Cavusgil, 1984). The previously cited work of Newbold, Buckley and Thurwell (1979) suggests that the gradual commitment mode yields the best rewards. Judging from the counts of many experimental exporters, there seems to be a pattern of resorting to solutions involving heavy reliance on foreign distributors, who in the introductory phases get a great deal of operational independence and therefore lock the exporter in a long term strategic position which often is contrary to his interests. The long term need for gradual learning of international business and building of competitive advantage based on market knowledge and strategic orientation is sacrified on the altar of the short term need for bridging the knowledge and commitment gap in order to economically survive the next year or two (Solberg, 1992). This is also seen in large multinational corporations, albeit with less dramatic overall negative effects for the company. The stories of the Coca Cola shake-up in Europe where in France they had a particularly painful divorce after 40 years of `marriage´ (Sellers, 1990) and of Nissan´s struggle to get rid of their UK distributor after 21 years of partnership (Griffiths, 1990) are evidence that at some point in time the rupture of relations not being nurtured in tune with the strategic intentions of the stakeholders is particularly painful, even for large multinationals. The difference between small and large, experienced firms lies obviously in the ability to find alternatives, making the former group of companies much more vulnerable to this factor.

Summing up this discussion, it seems clear that the proponents of the behaviouralist school realise the fact that economic factors such as locational, ownership and internalisation advantages do play a role in the internationalisation process of the firm. They place, however, more emphasis on the gradual learning of the management team of the firm and hence the maturing of the corporate culture oriented toward foreign markets than on economic constructs. In a way, one could say that when Dunning (1977) talks about ownership advantages, the internationalisation school of thought talks about capability to learn from the process and to transfer this knowledge to opportunities in the international market place, this knowledge in itself constituting an ownership advantage. In Penrose's words:

> "This increase in knowledge not only causes the productive opportunity of a firm to change in ways unrelated to changes in the environment, but also contributes to the 'uniqueness' of the opportunity of each individual firm", and later on: "Increasing experience shows itself in two ways - changes in knowledge acquired and changes in the ability to use knowledge" (Penrose, 1959, p. 53).

2.3.3 Export Success

The main thrust of the research in the internationalisation process has been to identify better ways to do things, both from the viewpoint of the firm and from the part of export promotion authorities. Little of the above mentioned literature addresses the particular issue of export success, let alone tries to define whatever export success may mean. One study, Newbold, Buckley and Thurwell (1979) indeed, gives some indication of 'profitable export behaviour': the long route to export markets with incremental experience building leads to more profitable FDIs in the long run. In the search for a model of strategic responses to globalisation trends, it is therefore necessary to review the research on export success in particular.

There have been a number of studies specifically addressing this question. Tookey (1964) was the first to analyse factors associated with success in exporting in some detail. In a study of 54 hosiery and knitware firms in the Leicester area in UK, he concluded that - apart from type and quality of the product - four main areas were of importance for export success: size of the firm, export policy, home marketing channels, and export marketing methods. He was particularly concerned with the lack of financial resources of the SMBs and suggested that "there seems to be a strong case for joint action by small firms to carry out marketing operations on the basis of shared costs" (p. 64). However, this study did not really set out to define export success, rather it was a registration of export practices.

Another study by Cunningham and Spigel (1971) identified the personal visits of company executives to their overseas markets as their single most important success factor, playing a "key part throughout the planning, implementation and follow-up stages of marketing abroad" (p. 11), as well as being the main source of marketing information. They emphasise that the

> "historical background and tradition of the firm, together with the attitudes of the senior managers in them, are the most significant factors having a bearing upon the firm´s commitment to exporting and indeed to international orientation" (p. 11).

In their study of US and Canadian firms in the electronics, machinery and car parts industry sectors, Kirpilani and Macintosh (1980) note that the organisational variables of the company play a much larger part than do situational, product and manufacturing policies. Factors like information for control reporting, top management effort, and the degree of structuring and maturity of the international division or unit are all significantly linked to export success. They draw the link to the Japanese *sogoshoshas* stating that their

> "strength does not lie in R&D or manufacture but in specializing in export and import business,.... The *sogoshoshas´* distinct advantage is its territorial knowledge of international markets, which enables it to benefit small- and medium-sized manufacturing suppliers for whom a real barrier to entry in international markets is ignorance of existing markets opportunities, distribution contacts, trading procedures, and financial requirements" (p. 89)

Thus, they implicitly espouse the virtues of Japanese trading houses. Furthermore, they note that it is possible to penetrate world markets with "commonplace" (p. 90) products. It hinges more on the organisation than on the products.

Cavusgil (1983) has analysed success factors in exporting. His approach is more oriented toward the performing tasks of the export policies, analysing the marketing variables more than the organisational variables. In a principle components analysis of 18 marketing decision variables he identified four factors: 1) Quality, service and image; 2) Contactual links with foreign distributors and agents; 3) Promotion; 4) Price and terms of sale. Bilkey's (1984) survey of 88 Wisconsin manufacturing firms also deals more with the operational parts of exporting than the more strategic issues. He found for instance that subsidiary control not necessarily was associated with high levels of profitability, whereas this was the case with the use of a combination of export channels. He also posits that dealer support is subject to diminishing returns.

Mention is also given to the comprehensive study carried out by Aaby and Slater (1989) reviewing 55 studies of export performance from 1978 to 1988. Their findings may be summarised as follows: concerning firm characteristics, they found that company size alone is not a determinant of export performance unless it is connected to factors like economies of scale or financial strength of the company. Furthermore management commitment and better management systems (planned export activities) seem to be directly linked to export performance. Traits like management's ability to stake out a vision and consistent export goals, their attitudes toward exporting and willingness to take risks seem to impact positively on export performance. It is, however, worthwhile mentioning the study by Kamath, Rosson, Patton and Brooks (1987), where there are very few correlations were identified between export performance and variables such as financial strength, strategy, R&D, management experience etc.

Finally, three contributions on Norwegian exporters are briefly discussed. Solberg (1988) suggests a model of "beneficial circle" consisting of the three factors: attitudes, skills and embodiment. Analysing 114 Norwegian exporters in the Oslo area, he divides the sample in two parts: successful exporters displaying a combination of return on sales, market share, sales growth, and export profitability; and unsuccessful exporters, not satisfying the criteria for this index. He concluded that embodiment factors like management commitment and the role of the board of directors; skill factors like how to deal with representatives abroad, quality and price, and marketing intensity, use of market information; and finally attitude factors like marketing orientation, empathy, delegation of authority etc. were key determinants for export success. He also found that success was not positively related to size, rather on the contrary: the successful exporters were significantly smaller (average of 400 persons employed) than successful exporters (800 employees). This finding lead him to suggest that smaller units are better able to create the right atmosphere for successful exporting, necessitating a closeness to the market and an open minded organisation not always present in large corporations with rigid bureaucratic decision procedures.

Selnes, Henriksen and Olsen (1993) review the export performance of 33 Norwegian technology based companies. In this study they found that share of sales to largest foreign customer explained 42% of export success. Other factors of importance were number of employees (-23%; the smaller the company the more successful its export activities - thus supporting Solberg´s 1988 findings), number of customers (11%) and finally degree of customer orientation (7%). Joynt (1989) suggests the use of Porter´s (1985) value chain in order to evaluate Norwegian exporters´ performance. He found that the 100 companies he examined were in general characterised by development of good products supported by a high technology national education system and by close relations to customers. On the other hand they ran a high cost operation (purchasing, logistics and manufacturing) and were often committing failures in their international marketing activities.

To sum up, it appears that export success is strongly related to management commitment in some form or another. This commitment is necessary to build the network of distribution and information channels indispensible for the firm to engage in the export learning process. Therefore, entertaining the network is of primary importance, although there are limits to the returns on dealer support (Bilkey, 1984). Another conclusion seems to be that high technology is not a prerequisite of export success, but product quality very much so.

2.3.4 New Developments in the Internationalisation Paradigm

There is increasing recognition that neither the Uppsala School nor the Williamsonian transaction cost tradition gives a complete explanation of internationalisation and international business operations. Attempts have been made to introduce to the arena new paradigms in international marketing.

A contribution to this discussion is made by Welch and Luostarinen (1988). They present a conceptual model which endeavours to "derive a substantial overview of the state of internationalization of a given company, which could then form the basis of comparison to others" (p. 38). The model encompasses six factors which together give a picture of the firm´s organisational capacity (to export/internationalise):

1. Foreign operation methods
   - Agents
   - Subsidiaries
   - Licensing
   - Management contracts
2. Sales objects
   - Goods
   - Services
   - Know how
   - Systems
3. Markets
   - Political distance
   - Cultural distance
   - Physical distance
4. Organisational structure
   - Export department
   - International division
5. Personel
   - International skills
   - International experience
   - Training
6. Finance

This framework is interesting in that it gives the analyst (and the decision maker) an "instant" insight into the capabilities of the organisation. It is, however, confined to the internal determinants of internationalisation, and does not account for factors like the firm´s position in the market place (as elucidated by the PIMS-model) and competitive structure (as posited by industrial organisation). Admittedly, external factors are mentioned in the article as "situational influences", but the framework seems in its existing form to lack the necessary rigidity to lend itself to scientific research.

In the search for a general paradigm in international marketing, Bradley (1985) suggests merging the best from the interaction model and the internationalisation process model. Modifying Carman´s (1980) exchange-systems paradigm, he endeavours to capture the essence of both models. Carman´s general system paradigm is best described by himself:

> "..the definition of a system is a set of regularly interacting groups coordinated in such a way as to form a unified whole and organized so as to accomplish a set of goals. The goals of the system are stated in terms of optimum states of some objective functions..." (1980, p. 4).

Then he goes on to describe five constructs as goals, environmental constraints, units of the system and their functions, and finally, the management and control mechanisms for the system.

Bradley (1985) also asserts that explicated firm specific advantages as expressed through high-touch products (Levitt, 1983) to a greater extent lend themselves to exporting, whereas firm specific advantages being more difficult to codify (eg. high-technology know-how) typically will tend to be transferred within the organisation. Thus - *ceteris paribus* - the more explicated the knowledge, the more the firm will tend to export, and the more tacit the knowledge, the more the firm will tend to control its markets through integration and foreign direct investment. Between these two extremes there is a continuum with other modalities of transaction that the international marketer can chose: licensing, franchising, joint ventures etc.

> "Firms whose differential advantage or uniqueness derives from technical skills, product co-ordination skills or marketing skills resort to very few exporting activities, joint ventures or licences since product bundles and constantly changing marketing strategies are difficult to contract out and hence are likely to be performed within the firm" (p. 177).

This statement has not been empirically tested, but is nevertheless interesting in that it suggests a theoretical explanation to direct foreign investments which differs from Dunning´s (1979, 1980, 1987, 1988) eclectic paradigm (see section 2.1). Contrary to Dunning´s three factors (location, owner specific, internalisation advantages), as long as the ownership advantage in Bradley´s concept is non tangible, this alone will be sufficient to lead the firm to invest instead of exporting or licensing the product.

Another contribution is made by Johanson and Mattson (1986). Reviewing the literature, they divide the field of international marketing in five distinct areas (p. 236-42):

1. Comparative market studies
2. Interdependencies between markets.
3. Entry and expansion strategies in foreign markets
4. Marketing activities in individual markets.
5. Interdependencies between and control of these activities.

They draw the conclusion that the existing framework is not rich enough to warrant a comprehensive analysis of all the phenomena to be studied. The process school of thought - despite its ability to predict behaviour in early phases - is to a too large extent limited to the internal life of the firm, omitting the interface with the environment. The traditional "marketing mix" approach, itself drawing from various theoretical schools (microeconomics, social psychology and organisational behaviour), is still too narrow to give the necessary insights. The non-marketing literature pertaining to issues of international marketing, like comparative management and transaction cost theories has not been fully integrated into the framework.

Johanson and Mattson (1986) advocate the development of a new framework including the following ingredients: 1) interaction between firm and its environment, 2) processes within the firm, 3) company resources and activities, 4) different modes of entry and expansion and their ensuing complementary interorganisational relationships. Applying the concept of networks, both the firm´s position in international networks (endogeneous network) and the existence or development of production and national networks in which the firm has to find a position (exogeneous network), the authors draw on the interaction-school (Håkanson et al., 1982). They then introduce a two by two matrix with the internationalisation of the firm, respectively the market on each axis, giving the following picture (figure 2.11).

		Degree of internationalisation of market	
		Low	High
Degree of internationali-sation of firm	Low	The early starter	The late starter
	High	The lonely international	The international among others

Figure 2.11: Four Cases of International Marketing Situations

Source: Johanson and Mattson, 1986, p. 252.

Johanson and Mattson (1986) conclude that two strands of research are needed: 1) studies on industrial networks both as to relationships and regarding structural changes. These would differ from industrial organisational studies as the emphasis is placed on relationships and not on the corporate units; 2) studies on strategic processes within the firm.

Johanson and Mattson's (1986) inclusion of the interaction school of thought adds a new and critical element to the development of a new paradigm of international marketing. However, their contributions seem to lack the insights of industrial organisation, emphasising the impact of the competitive climate. This factor seems ever more important in a world environment characterised more and more by large competitors and strategic alliances between players in the market place.

Even if the internationalisation school of thought has been criticised for lack of rigour and absence of proper theory (Cavusgil and Nevin, 1983; Andersen, 1993), it has indeed contributed to the understanding of why and how firms internationalise, and to the barriers encountered during this process. The basic idea of a learning process (Johanson and Vahlne, 1977) is an important premise for this strand of literature. Coupled with the understanding of how internationalising firms break into existing networks in foreign markets and how they build their own networks (Håkanson, 1982; Johanson and Mattson, 1986) this knowledge is critical to assess their ability to cope with globalising markets, the very subject of this thesis.

2.4 From Internationalisation Process to Global Strategy and Management

The "Uppsala-school" is important relative to globalisation of markets in that it demonstrates that not only external factors to the firm affect this trend (of globalisation), but also internal behavioural factors play a role: factors other than relative prices, trade barriers, transport costs, investment opportunities etc. impact on firm behaviour in international markets and hence the structure of the industry of which it is a part. As one such internal factor, even the internationalisation of the smallest of firms will therefore contribute in its very modest way, to the globalisation of markets. When the firm has climbed the "internationalisation ladder", it enters the category of MNE and affects the drive toward globalisation of the industry through its strategic choices. At this moment, the problems facing the firm take on another character than before it entered the international market arena:

> "Once an enterprise has become multinational, the basic goal is no longer simple internalisation [or internationalisation], rather it is to find the formal structure and conditions which provide multinational enterprise with the right organisational fit" (Gilroy, 1991, p. 14).

This view, although underlining the difference between an MNE and a firm just entering the international market or in the midst of the internationalisation process, seems to be rooted in the strategy-structure paradigm (Chandler, 1962), a line of thought which is being questioned by modern writers of global management. Following the viewpoints of Hedlund and Rolander (1990), it is not question of finding the right structure as such; the "structure is not an instrument, but primarily a giver of meaning" (p. 35). They argue that the time lags between change in environment and the subsequent strategy alterations leading to structural changes within the organisation are too long for a hierarchically organised firm operating in a multitude of country markets. Instead they advocate the `heterarchic´ model (Hedlund, 1986; Hedlund and Rolander, 1990) exhibiting a long range of different features like decision centers with different headquarter functions in different countries; a strategic role for foreign subsidiaries, not only dealing with matters for `their company´, but also for the whole MNE; use of a wide spectrum of entry modes - anything between pure market and hierarchy models; use of coalitions to take advantage of opportunities or to preempt threats; emphasis on developing a common corporate culture as one of the mainstay elements of the corporate cohesion; holographic organisation - implying that "information about the whole is stored in each part of the company" (Hedlund and Rolander, 1990, p. 26); generation of new firm-specific advantages (substituting the more static idea of home based firm-specific advantages of the eclectic paradigm); etc. Hedlund and Rolander make the distinction between experimentation where the objective is to seek new opportunities, involving an active learning process, and exploitation where the main feature is effective utilisation of capabilities gained during the experimentation period. In this context they talk about strategy as action: action programs aiming at market creation, the exploitation of comparative advantage between countries and regions, and for flexible global arbitrage (the field of trading and financial firms).

A more structured approach is suggested by Porter (1986), who applies his value chain to determine factors critical in the organisation of MNEs. These factors are: 1) the geographic configuration of activities in the chain, and 2) the extent to which management is coordinating these activities. According to Porter it is therefore not sufficient to measure the extent of foreign direct investments (FDIs) to get a measure of the globality of the MNE and its impact on globalisation trends in the market. It is also necessary to assess the management of the MNE - for instance the extent to which it recurs to coordination of its activities world wide - to get an idea of the impact on globality. This framework is a very useful one in that it `dissects´ the organisation and - coupled with analysis of competition and globalisation trends - gives management insight into critical areas of coordination of the activities of the firm. McKinsey has described how they use the framework in their consulting (Mühlemann, 1986).

Porter (1986) extends his generic strategies (1980) to the international arena, talking about global cost leadership and differentiation strategies and global segmentation as well as nationally oriented strategies in broad but protected markets, and in niches. This framework has been exposed to criticism, particularly from Rugman and Verbeke (1993) who allege that firms may adopt both differentiation and cost leadership strategies on a global basis, naming automobile manufacturers like GM, Ford and Toyota as cases in point. They maintain that Porter's scope and type of advantage matrix is difficult to apply to international strategies. Rather, they suggest another typology where number of "home bases" and type of firm specific advantage (location/non-location bound) constitute two critical dimensions. In this framework, the non-location bound advantages may easily be transferred and integrated in an international network of firm affiliates. The question is then how many home bases (with different types of firm specific advantages) does the firm have and how should they organise to succeed in global markets? Figure 2.12 suggests different strategies according to location in the matrix.

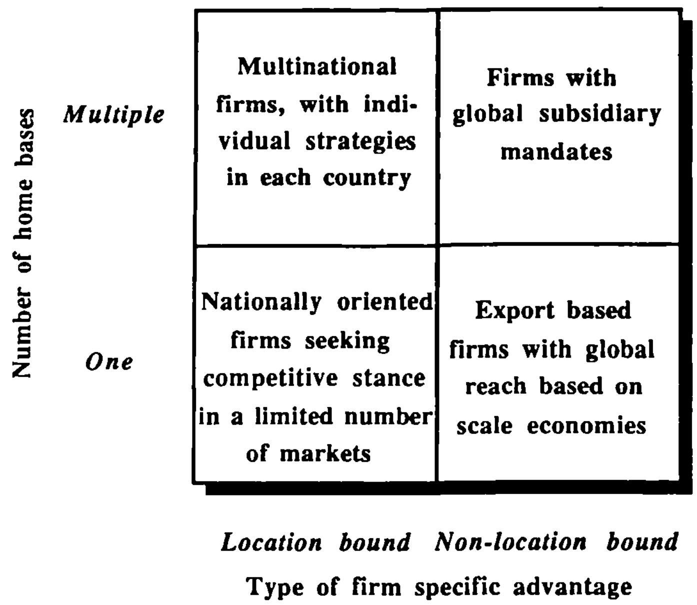

Figure 2.12: Typology of Firms in Global Markets
Source: Based on Rugman and Verbeke, 1993

Rugman and Verbeke (1993) assert that this typology is "more relevant for strategic management purposes than the one of Porter (1986) on the configuartion (geographically dispersed or concentrated) and coordination (low or high) of activities. A dispersed as opposed to a concentrated configuration of a firm's activities, in general, does not necessarily carry important strategic implications. What is more relevant is to know where and how the core activities are carried out which will determine the development of the new FSA's [firm specific advantages], and which may be substantially affected by CSAs [country specific advantages] of the locations where they were developed" (p. 17).

Bartlett (1986) and later Bartlett and Ghoshal (1989) allege that globalising driving forces together with the need to respond to local requirements will lead many MNEs in a direction which they term transnational organisation. Discussing the alternate paths of development toward Stopford's and Well's (1972) "global grid" they assert that the challenge of the "transnational" is to build a corporate culture where management thinks as a matrix but acts as a line organisation. In the words of Bartlett (1986, pp. 398-99):

"At one level, the multidimensional management perspectives, the interdependent operations, and the flexible integration organization process might be taken as evidence that it is some kind of worldwide matrix. Such a conclusion would miss the central point of the argument, however"......

and later on:

"The objective must be seen not as one of finding and installing the right structure, but as a challenge to understand and develop an organization process that reflects the company's external task demands and internal administrative heritage" (p. 399).

One important feature of this organisation is the consequences of intrafirm communication, of which there are at least three:

- Integrated strategic decision process, involving "all" parties.
- Complex and strict control and coordination.

- Exchange of technology, people, financial resources and products between independent units.

Another strand of research in this field is the one dealing with strategic alliances (Perlmutter and Heenan, 1986; Harrigan, 1987; Contractor and Lorange, 1987; Harrigan, 1987; Ohmae, 1989; Roos, 1990, Doz, Prahalad and Hamel, 1990). The emphasis in these studies is on the process leading to and working with strategic alliances, and on different types of strategic alliances. One conclusion to be drawn from these and other studies is that strategic alliances in themselves are an important factor in the development toward globalisation.

Strategic alliances have partly emerged as a response to the more global market environment in the 1980's (Ohmae, 1985) and are to a large extent concluded between large multinational corporations. The reason why they choose this form of cooperation rather than an outright acquisition or merger seems to lie in the increased risks of the size and international scope of the deal. This is consistent with Kuehn (1975) stating that large companies are acquired to a lesser degree than small companies. Seen from the perspective of internalisation theory, there is apparently a paradox in this risk aversion, in that firms in open markets in this tradition incur heavier risks than within hierarchies. Even though the failure of a strategic alliance may have negative effect on the competetiveness of the partners (Hamill and El Hajjar, 1990), the failure of a mega-merger is deemed to be even more disastrous. There seems therefore to be a balance between the ability of firms to digest the organisational challenges represented by two different corporate cultures in international mergers and the gains to be earned from rationalisation and full internalisation of markets.

The "global management" school is important to our research issues in that it partly elicits the rules of the game of large players in global industries, and as such it gives us insights into one side of the development of industry structure in world markets. Furthermore, it gives guidelines to management as to the development and implementation of viable strategies.

2.5. Conclusions

This chapter has been a long but necessary review of critical contributions to literature on firms operating in international environments. Since the present research problem is one of the interface between the firm and its international environment it has been necessary to `borrow' from different theoretical approaches to international business and trade, both at the macro level (environment), at the micro level (firm), and at the level in between (industry). The objective has not been to give an exhaustive count of the research in all these strands of literature. Rather, the aim has been to discuss the key currents in order to integrate these different traditions into one framework; that of firm strategy responses to globalisation forces.

Figure 2.13 seeks to illustrate how the different schools of thought relate to the dichotomy macro/micro and economic/behavioural, and sums up much of the discussion in chapter two. Whereas international trade theory clearly leans toward economic science, the theory of the internationalisation of the firm may be treated both from a behavioural perspective and on the basis of pure economic theory.

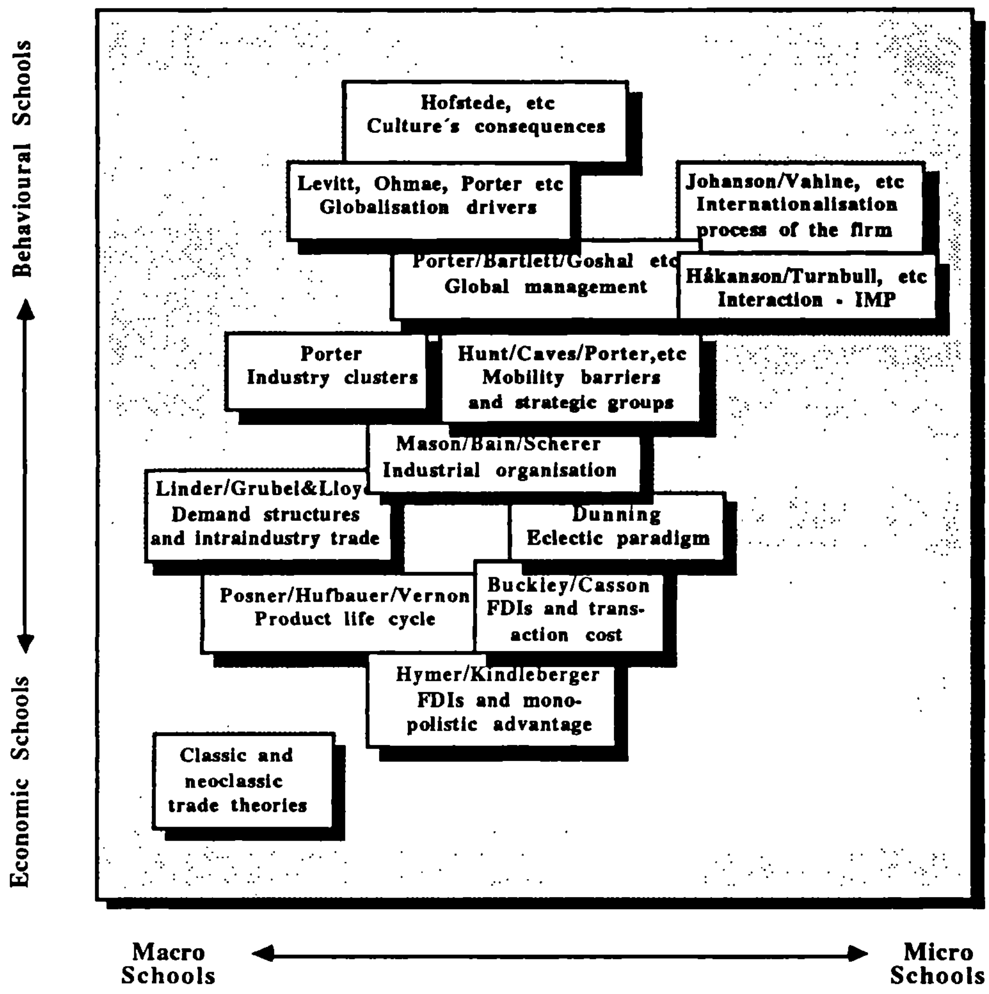

Figure 2.13: Theories on International Trade and Business

The next chapter will develop an integrated model taking account of the different strands of literature presented in the present chapter. This model will be used as a guideline for devising research questions in the study that follows.

Chapter Three
Model for Strategy Development in Globalising Markets

Chapter Three
Model for Strategy Development in Globalising Markets

The aim of this chapter is to establish a framework for analysis of firm strategic behaviour in globalising markets. As we have seen, it has been deemed necessary to seek insights into different scientific paradigmatic orientations in order to cast light on this issue. The framework presented in exhibit 3.1 below illustrates the character of the present research problem. It draws on both the internationalisation process school including elements of the interaction school, and on the IO paradigm (strategic groups) to form an analytical approach to penetrating into and competing in international markets. This framework is based upon two underlying premises:

1. Strategic behaviour (conduct) of firms depends on the international competitive structure. In a multidomestic market environment where the markets exist independently from one another (Porter,1986), the firm may consider entering foreign markets gradually and one by one, without fearing counteractions from multinational enterprises, and with a marketing strategy adapted to the individual situation in each market. On the contrary, in a more global market environment, the interdependencies between markets affect the strategic deliberations of the main actors in the market (Johanson and Mattson, 1986, Hamel and Prahalad, 1985). In this situation, the firm will have to take the global market situation into account when making moves in any one country[5]. The theories at work in this context emanate from industrial organisation and intra industry trade indicating the factors at play in forming the industry structure. These factors have been described in Chapter two.

[5]One may argue that SMBs do not operate in a leage where market interdependecies and competitive retaliation are being felt by management. However, since a number of SMBs operate in niches where they meet specialised divisions of large MNCs, this phenomenon may still make itself felt also to the SMB.

2. The other premise behind this framework is partly based on the Uppsala School of incremental learning and commitment of the firm toward international markets. The more committed and the more experienced, the more the firm is prepared to meet challenges in globalising markets. Also the lessons learnt from the interaction school of thought help us explain the ability of firms to expand in international markets: the better developed the marketing network through customers, distributors and other actors in the market, the better prepared the firm is to embark on further international expansion.

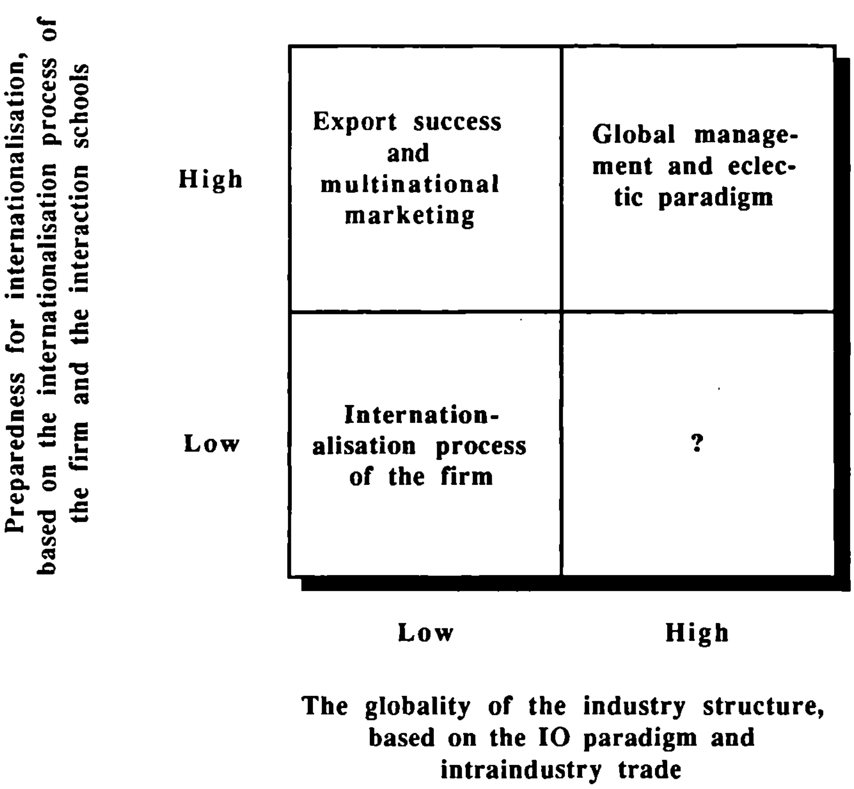

Figure 3.1: Theoretical Framework for International Business

Figure 3.1 indicates that seeking explanations to international involvement of the firm has to reach far broader than just one paradigm. In fact it is possible to devise four theoretical approaches to internationalisation. One deals with the initial phases of internationalisation, when the firm has limited knowledge of the `nuts and bolts´ of international marketing and business, lacking an international network, having no clear ideas of the future international involvement of the firm, and operating in an industry structure which is nationally oriented and often fragmented. In these cases - seeking explanations to why and how firms enter international markets - the theories of the Uppsala school will typically apply (see also Nordström and Vahlne, 1985). Entering a more oligopolistic market environment, with large multinationals dominating the arena, the solutions by the Uppsala school seem no longer helpful (Johanson and Vahlne, 1990, Forsgren, 1989). In this case it is necessary to resort to global management school and to the eclectic paradigm to find relevant theories. The first one, because of the nature of the business with MNEs being the very subject of study and the second one because the MNEs generally have a better knowledge foundation to base their decisions on, one of the prerequisites of the eclectic paradigm.

In the upper left part of the grid, the application of the lessons of the literature on succesful exporting and multinational marketing in general should be relevant. In this situation, the firm has achieved certain skills in doing business abroad and it operates in a market environment which may be termed multidomestic.

However, there is a "tension" in figure 3.1 in that companies, and particularly so SMBs, in the initial internationalisation phases (with limited international experience and marketing network) and that operate in globalising or globalised industries do not fit in either of these three categories. The question mark in figure 3.1 indicates that there is no theoretical framework to guide the internationalisation process of firms in this position. The dilemma of these companies is that they do not have the necessary experience to devise superior strategies in a rapidly globalising and more competitive world.

The model to be developed in this chapter makes use of the two dimensions in figure 3.2 which for our purposes are named 1) the present state of globality of industry structure - or "industry globality", and 2) the preparedness for internationalisation. A third factor represents the dynamic dimension which we will term the "effect of the globalisation drivers on the industry structure", or in other words, the speed of globalisation of the industry. Figure 3.2 illustrate how these factors come into play in two industries A and B.

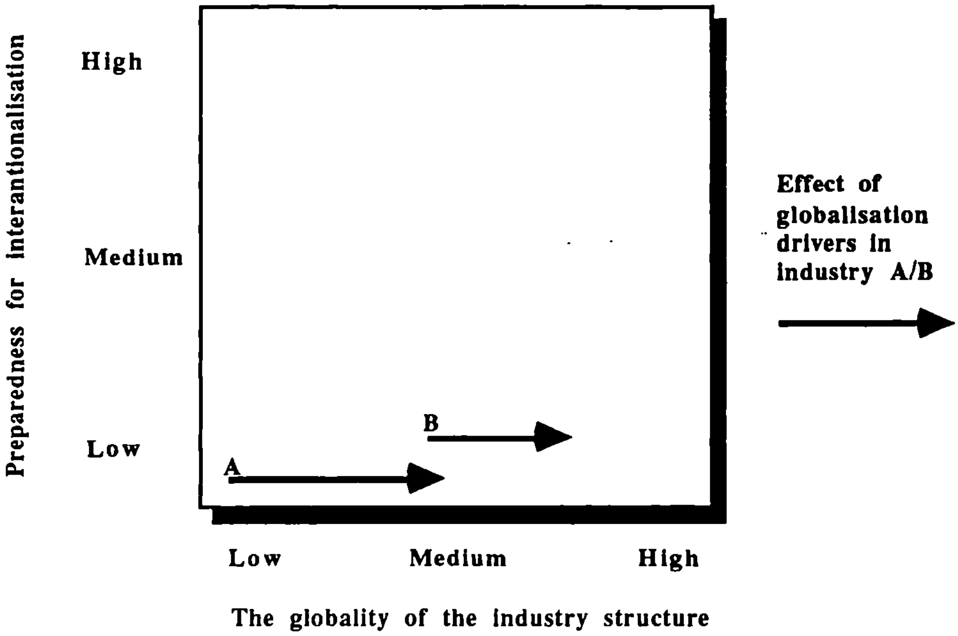

Figure 3.2: Three Factors Forming Global Strategies

The remainder of Chapter three will step by step build the model for strategy analysis in globalising markets. The chapter is divided in two sections:

- The independent variables of the model, the globalisation factors, and
- Discussion of the dependent variable of the model, the strategic consequences in each of the "Nine strategic windows".

3.1 Globalisation Factors

We discussed in chapter two different theoretical approaches to globalisation of industries. The purpose of this section is to establish the construct of the different elements going into the model. These elements are: the state of industry globality, globalising drivers and preparedness for internationalisation.

3.1.1 State of Globality in the Industry

The different indicators of industry globality discussed in the literature review may be summarised in two factors which will be discussed in this section:

Industry structure
Market interdependence in the industry

Industry Structure

We have seen that economies of scale - traditionally in manufacturing, but in later decades encompassing R&D and marketing - have been regarded by many writers as the determining factor in deciding the degree of globality of industry structure. This is the mainstay argument in Levitt's article (1983) and is evident in industries like mainframe computers, aircraft manufacturing, certain pharmaceuticals, aerospace, automobiles etc. (Tinsley, 1986). However, it is difficult to determine the relevant thresholds of economies of scale: Hamel and Pralahad (1985) when discussing global business relate this dimension to the size of the home market. This is controversial, to say the least, in that this latter varies in size according to the home of the headquarters. A more appropriate measure could be the minimum optimal size of a cost efficient producer relative to the relevant market (whether it is the home market or a broader definition of the market base) of the products in question. Again, such a definition is limited by the multitude of manufacturing processes and strategic orientations (for instance with regard to R&D or market segment with specific product requirements) and would at best represent a rough approximation. Carefully defining strategic group membership makes probably the task more clear cut, but the problem of taking care of firm specific factors remains. It seems, therefore, difficult to operationalise this factor for research purposes. Also, the measurement of scale efficiency at the plant level is too limited in a world where multiplant operations are gradually becoming the rule rather than the exception.

Number of competitors in the industry and their relative sizes are less ambivalent units and will, therefore, be more likely to reliably translate this phenomenon. There are several measures of industry concentration in the literature. The most common measurement method used is industry concentration ratio (Scherer, 1980). The weakness of this measure is that it does not take into account the relative size of the players in the industry. If the four firm concentration ratio (the market share held by the four largest firms in the industry) is 0.80, this figure says little about the relative strength between the players. The Lorenz curve and the Herfindahl-Hirschman index make allowance for this factor. However, the fact that information about competitors´ shares and productive capacity is not always readily available makes the value of more refined measurement methods illusory. Furthermore, it is a question of purpose: for case analysis some qualitative measure of number of firms and their shares may suffice to classify the industry structure. Therefore, we will base our model on the firm concentration ratio. In addition, this ratio is widely used and universally recognised, making it a good candidate for our purposes.

Still, one serious question remains: that of the delineation of industry. What use is there to identify the industry´s four firm concentration ratio when the "industry" is not properly defined? The literature on mobility barriers and industry groups gives us some leads, portraying the features of actors covering different market sectors, only tangentially competiting with each other. It is therefore important to identify the critical dimensions making up the different industry groups.

One possible avenue is to analyse each player in the industry according to international involvement, degree of niche orientation, size and the importance of the product area to the firm. Figure 3.3 shows a model where these factors are accounted for.

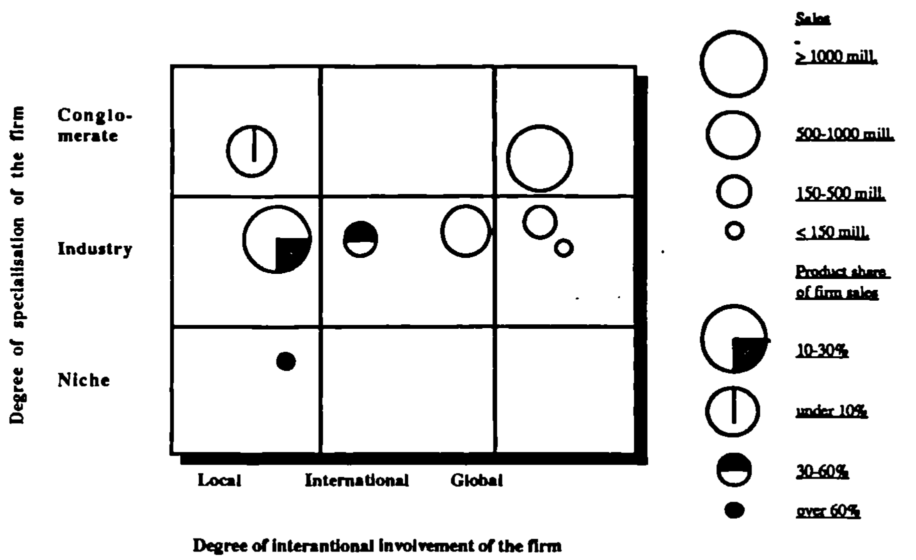

Figure 3.3: Model of Competitive Environment

Properly completed, this grid gives key information about critical aspects of the industry structure. If all the players in the industry are concentrated in the lower left part of the model, the industry structure would typically be termed local. If on the other hand there are only a handful of firms positioned in the upper right corner, chances are that the industry is global. With a more differentiated picture, with the map being covered by all the types of firms (large - small, nichers - conglomerates, international - local), the occurrance of strategic groups across the industry is much more likely. Again, the weakness of this model is availability of data. However, it is possible to get qualitative judgements by key informants in the industry.

Market Interdependence

Strategic groups fall short of answers when introducing the international dimension of the industry. Do we talk about the home market, the regional market, the European market, the market in the Triad, or some other definition of market boundaries? The importance of properly defining the concept of what we may call the *reference market* is eloquently illustrated by Leontiades (1984), who shows how multinationals in the UK (Ford, IBM, Texas Instruments) perform much better in their UK operations in terms of ROI than their local counterparts, despite lower market shares in the UK. Translating his findings to the present context, we may say that the reference market is no longer constrained to the UK, but rather, has to be defined on a much broader basis, in an international context.

If we are to capture a realistic picture of the industry structure, it is therefore necessary to gauge the degree of interdependence between national markets. Market interdependence is one of the direct results of the process of international oligopolisation. The ultimate consequence of this factor is that any actor in the industry has to consider the consequences for its competitive posture in several countries (or "all" the countries in a truly global market) even when implementing its strategy in only one country.

There are several measures which may capture this phenomenon. Intraindustry trade is one such measure and varies greatly between and within industry sectors. In some industries, suppliers are found in virtually all countries, but the amount of international trade is rather limited (building products, food products, beer, services, etc). The reason for the limited level of international transactions may be international barriers as described in section 2.2.3 - channel control by major competitors, cultural or political barriers, or it may be explained by the underlying factors of the industry structure - for instance fragmented industries in Buigue and Jacqumin´s (1989) framework .

In other industries the structure is much more specialized and the players are concentrated in a limited number of countries (salmon, shipbuilding, aircraft), based on traditional factor endowments or more modern concepts of factor creation (Porter, 1990). The firms in these industries compete mostly in third countries, ie. countries where this industry is non-existent or does not cover the needs of the home market. Finally, there is a category in between these two extremes (computers, automobiles, petrochemicals, pharmaceuticals). In these cases, the industry is not concentrated to a few countries, and there is a certain amount of intraindustry trade. Public statistics on trade exchanges and industrial production are, however, too inaccurate to give us anything more than an approximation in establishing the degree of intraindustry trade (see also Krugman, 1989) let alone for individual products in distinct strategic groups.

Another indicator of market interdependence could be the presence of MNEs and international strategic alliances in the industry. As the number of cross border mergers, acquisitions and strategic alliances have considerably increased the last decade (Hagedoorn and Schakenraad, 1990), this has itself resulted in a concentration of the industry structure. There is therefore a risk of "double counting" the effect of industry concentration by including this factor. Yet another sign of market interdependence is mentioned by for instance Hamel and Prahalad (1985): players in the industry use actively cross-subsidisation as an entry mode in international markets. Sölvell's (1987) contention that rivals from different countries have penetrated each others markets may constitute another indicator of market interdependence. Finally, Leontiades' (1984) term, international price sensitivity, where price changes in one country affect the price level in other countries, is still another one.

The importance of this factor appears when considering the degree of transnational competition in the different industries. If not impossible, it is at least very difficult, to enter the home markets of specialised industries. In shipbuilding for instance, the purchasing pattern is typically that Japanese shipowners order their vessels in Japan, the Germans in Germany, the Spanish in Spain and so on and so forth (Steslow, 1989). The international competition occurs in this case first and foremost in third countries; whereas within the home country of the specialized industry, there is very limited international competition. At the other end of the scale, cross border trade occurs, but generally the dominant market players are nationals, and there is no specific discernable pattern in the trade (except that it is often more regionally oriented).

A Typology of Globality of Industries

Figure 3.4 gives an idea of how the different factors come to play in defining the industry in question. This classification is slightly different from the theoretical model suggested in section 2.2.6. - figure 2.9. The main reason from deviating from this model is that the present construct lends itself more easily to unambiguous and observable data. This typology is certainly not capable of capturing the multitude of competitive situations in international markets. It gives however the researcher some guidelines along which it is possible to classify the industry structure.

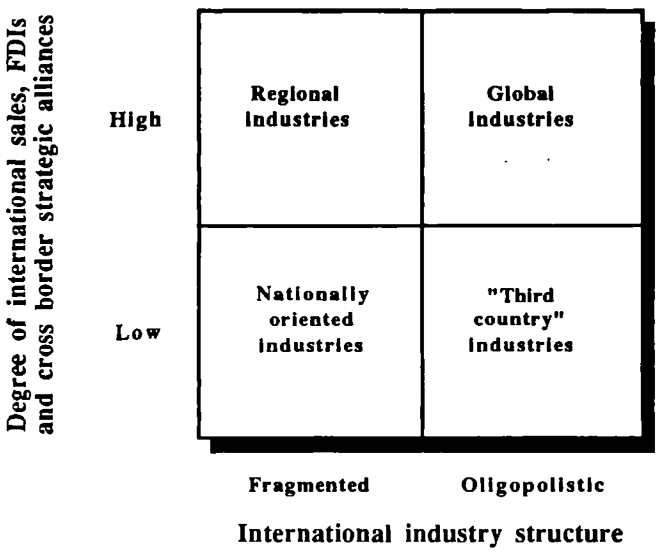

Figure 3.4: Classification of Industries

We therefore end up with the following three categories: Nationally oriented industries - or multidomestic industries (Porter, 1986), potentially global industries encompassing third country and regional industries, and finally "true" global industries.

1. Multidomestic or multicountry industry, where the basic structure is dominated by national actors and/or a fragmented competitive structure. The consequence of this structure is that there are no signs of global forces that will pull the industry in a more international orientation. The plumber and hairdresser trades are may be the arch types in this category. Examples of industries in this category which nevertheless have an element of internationally active companies are rare. Companies in the paint industry or certain parts of the building materials industry may be examples.

2. Potentially global industry which embody the possibility of becoming global if exposed to the "right" set of globalisation drivers. There are two main types of potentially global industries, the first one being regional industries in which oligopolistic

structure in national markets drives the players into exporting to neighbouring markets and/or multinational actors have made certain inroads into the individual national markets. International trade is important, but there is no dominant player in the market. Furniture, clothing, building materials, certain food products (but not all) can be found in this group. In this group we may also include the "third country" industry structure, where international competition indeed exists, but it is constrained to countries not themselves supplying the products.

3. Global industry is characterised by the presence of a limited number of global, dominating players in the industry, catering to major segments of the market. There is, however, always an undergrowth of smaller, segment oriented companies that specialise in particular application areas in the market, and that operate on a world wide basis. The aircraft business is a typical example of this structure, with the three leading western suppliers (Boeing, McDonellDouglas, Airbus), and a range of other companies specialising in for instance commuter planes (Saab, Cessna, Fokker Friendship etc.). A major feature of players in a global industry is that they - through their extensive distribution network - are able to rapidly introduce product innovations on a world scale basis.

3.1.2 Globalisation Drivers

We have already discussed different writers´ contributions to globalisation drivers, and may sum up with the following elements:

Demand homogenisation
Government actions (GATT, EC, capital markets)
Firm activities in global markets
Technological environment
Infrastructure (communication)
Concentration in customer/distribution channels

The key question is here to what extent these factors occur and to what extent they have an impact on the industry players' ability to build global market positions through the erection of entry barriers in the global market place. For instance, does the state of the art technology permit improved economies of scale and flexibility to cater to different market segments making it possible to cover several markets and in this way making entry by newcomers prohibitive? Do the developments within the EU promote intraindustry trade to the extent that market interdependencies in Europe will develop? Do the trade disputes between the US and her trading partners have a negative impact on the further economic integration in the world? Will the activities of the MNEs in international acquisitions, joint-venturing and strategic alliances lead to a more concentrated global industry structure? Are more market segments experiencing a gradual convergence, facilitating the implementation of global marketing programmes?

The next question is: how imminent is the impact of the changes in these factors? Will they make themselves felt this year, in two years, in five years? And with what strength?

Answers to these questions are generally impossible to give, and yet, they are paramount for management in order to devise a strategy to respond to the challenges that they represent. It is therefore important to develop a measure that can capture the essence of these phenomena. We may overcome the problems of finding appropriate measurement methods by using a scaling system where managers rate the impact of different developments in their industry, and thereby defining an index of globalisation drivers. A three level measure is deemed appropriate to capture the essence of this factor:

1) The globalisation drivers are weak and do not have a notable impact on the globality of the industry structure the next five years. In other words, this is the estimated time necessary for the industry players to move into other strategic groups or to make gradual strategy adjustments if they so decide without straining their organisation or resource base. This means that the industry players can operate securely with the present strategies without fear of meeting radically new competitive constellations during the same time period. The reason for this lack of dynamism may for example

lie in maturing technology (for instance smoke stack industries like steel, aluminum, fertilisers, petrochemicals, cement or certain service industries like plumbers, hair dressers, restaurants, etc.). However, other factors may drive globalisation further and will therefore exclude some maturing industries from this globalisation driver category. One such factor is strategic partnering and acquisitions both within the individual country and across borders, resulting in a restructuring of the industry. This has been seen in most of the smokestack industries mentioned above, but not so much in the service industries.

2) The globalisation drivers have a medium strength and impact on the future industry structure with the consequences being felt between two and five years. In this instance, the players in the industry are affected and should reconsider their strategic stance toward international markets. This might be the case of high technology products where not only new technologies are constantly being introduced in the market, but also new entrants stir the traditional pattern of industry structure. The gradual adoption of EC 92 regulations may have the same time lag before their impact is being thoroughly felt by the industries concerned. The completion of the Uruguay Round is another factor which may come in this category.

3) Finally, there are factors that are deemed to have an impact on industry structure in the immediate future (next two years). International strategic alliances and acquisitions may play such a dramatic role: for instance, the merger between ASEA and BBC changed "overnight" the structure in the electrotechnical industry. Also new product introductions may have a powerful impact on the competitive positions of firms. Cases in point are the "Walkman", the VCR or the CD player.

3.1.3 Preparedness for Internationalisation

This section describes the two factors that are used to determine the potential for internationalisation: 1) international organisational culture and 2) relative market share in the firm´s reference market.

International Organisational Culture

The importance of including international business culture of the firm in this dimension lies in the alleged ability of management to devise proper responses to the challenges in a globalising world. Briefly: the more internationally oriented, the better equipped to develop viable strategies.

We have seen that a host of researchers have described the internationalisation process of the firms (Aharoni, 1966, Bakka, 1973; Johanson and Wiedersheim Paul, 1975; Johanson and Vahlne, 1977; Bilkey and Tesar, 1977; Luostarinen, 1980; Welch and Wiedersheim-Paul,1980; Piercy, 1981; Reid, 1981; Cavusgil, 1984; Solberg, 1987). The essence of this work is summarised by Johanson and Vahlne (1990). Common to these studies is the observation of how the company management matures internationally in that they develop proactive attitudes toward international business with increased international sales. Therefore, one proxy of international organisational culture could be the firm´s stage in its internationalisation process.

However, it is important to allow for other variables as well; even though the international organisational culture is being enhanced by increased international sales, many companies either lag behind the "norm" or on the contrary are able to leapfrog a "step" in the internationalisation process. Therefore, a more thorough analysis of the corporate culture is needed to make corrections to the somewhat more "arithmetic" approach of using the ratio of international sales to total sales only. In this connection it is appropriate to make use of Luostarinen and Welch´s (1988) framework of six internal dimensions (foreign operation methods, sales objects, markets served, organisational structure, personnel - skills and experience, finance) - see section 2.3.4 New Develoments in the Internationalisation Paradigm.

One of these six dimensions should be considered in more depth: the firm´s international marketing network (foreign operation methods in Luostarinen and Welch´s framework). This strategic element appears to be increasingly more important with increased globality of the industry; without an entrenched position in key markets, it will become difficult to counter competitive attack of rivals already well established in the most important markets of the firm. Also, this element has been found to have decisive impact on success in exporting (Solberg, 1989; BOTC, 1987). Skills in operating through and controlling the international marketing network will therefore translate one important dimension of international corporate culture. Furthermore, the importance of this factor is underscored by the IMP-School of thought (Håkanson et al, 1982; Johanson and Mattson, 1986).

Market Share in Reference Market

The strategic importance of market share is emphasised by the Boston Consulting Group, in the much (ab?)used BCG-grid. In the PIMS material (Buzell and Gale, 1987) evidence is rendered to support the close relation between market share and return on investment. This is also one of the premises of the IO paradigm. In this context, relative market share is a proxy of the relative strength of the firm in its major markets, and - hence - its ability , on one hand, to withstand competitive attacks, and on the other hand, to finance - through higher return on investments (ROI) - a further global development of the firm.

One of the major problems with using the BCG-model is of course to determine the market shares of the actors in the market and, hence, the market share relative to one´s biggest competitor. For the car industry, for instance, market share can be defined as a share of the total market, as a share of the station wagon market, of the small car market, of the hi-quality market etc, etc. In each instance, manufacturers like Volvo or Toyota will be positioned in vastly different places in the grid. The determinants of the market share concept should therefore be related to :

- The ability of the marketer to position the product in a segment, which can then be defined as the "total" market which we already have referred to as the *reference market*. It is in this market that the customers perceive the marketer´s products, and it is therefore also in this market that the competition really takes place.

- The effects of the learning curve and economies of scale initially constitute the basis for the argument about the importance of market share. This factor is in this instance important in that a cash cow position in key markets may constitute a prerequisite to financing expansion into new markets.

One may be led to think that if management wants to "increase" its market share it could just reduce the scope of its reference market, and thereby redefine its position. In IO terms this would entail changing strategic group. Of course, things are not that simple. For instance, if customers in different segments are more responsive to price than to other elements of the marketing mix (for instance product quality), this is probably a sign that management will have difficulty in identifying separate niches where the company could play a major role. In other cases, different segments overlap one another with ensuing lack of distinct definition of the individual niches. Even if it were possible to distinctly define a limited reference market where the company could play a dominant role, there are constraints pertaining to economies of scale - a factor which in itself is volatile. These factors make it extremely difficult to unequivocally determine the reference market. The Porter (1980) framework of focus, differentiation and cost leadership offers some clarification, but does not really help in operationalising the concept of relative market share.

Using the result of figure 3.4 (globality of the industry) gives the researcher an idea of the globality of the reference market. If the market is defined in the lower left part of the grid (local), the reference market may be viewed as isolated "pockets", with little interdependence of the outside world. If, in contrast, the market has characteristics of an open, global market, the reference market should be defined as being much broader. The figure below may illustrate the difference between a "local" reference market and what one could term a "globalising" reference market. This illustration also shows how difficult it is to exactly determine the boundaries of a reference market, because of the many grey areas - be it in the product or in the market arena.

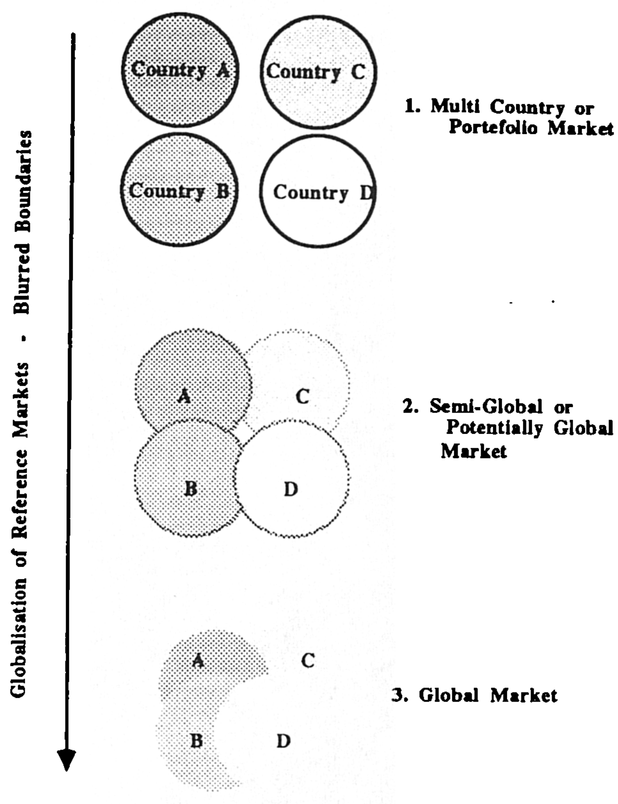

Figure 3.5: Different Types of Reference Markets

One way of gauging the relative market share is of course to ask management to assess its role in the reference market. The weakness of this approach is that management may tend, through wishful thinking, to narrow the scope of the reference market and "exclude" major competitors, while in fact these latter pose a major threat. The best way to approach this dilemma is probably to identify the reference market through in-depth interviews and discussions with management.

The problems of defining the reference market, or the problems with limited information about market shares in foreign markets may be overcome or at least attenuated by introducing proxies for this measure. Market network may constitute such a complementary or substitue measure for market share. The function of this dimension is to gauge the company's ability to reach key markets through its network. The more global the industry structure is, the more important becomes the presence of an active and widespread network. Only in this way is it possible for a firm to put weight behind a threat of retaliation in the home base of a potential entrant (Hamel and Prahalad, 1985). This, then, means that it is not enough to have a foothold, but that the firm should have an entrenched position in the market (Sölvell, 1987). Also, the proponents of the Uppsala School recognise the role of network, in the form of the entry mode in foreign markets. Here the interaction paradigm (Håkanson et al,1982) can help us define the critical elements of the relations in the network (atmosphere, relations and events). To this end one may gauge the relative power of the partners, the number of contacts between the partners, the degree of control of the marketing network, the personal ties, degree of loyalty etc.

Company Profiles in Globalising Markets

Putting these factors together will give us an index denoting the firms' preparedness for internationalisation. When placing companies or their strategic business units (SBUs) in the grid, one will always encounter problems of a variety of situations in different markets. A firm can for instance have a comfortable domination of its home market, but strategically depend more on exports to markets where the market shares are much less impressive. This will often be the case of the exporter from small countries like Scandinavia or Benelux, where the market volume is relatively small, and where individual firms "rapidly" reach the market share ceiling.

Three company profiles drawn from this discussion are presented in figure 3.6:

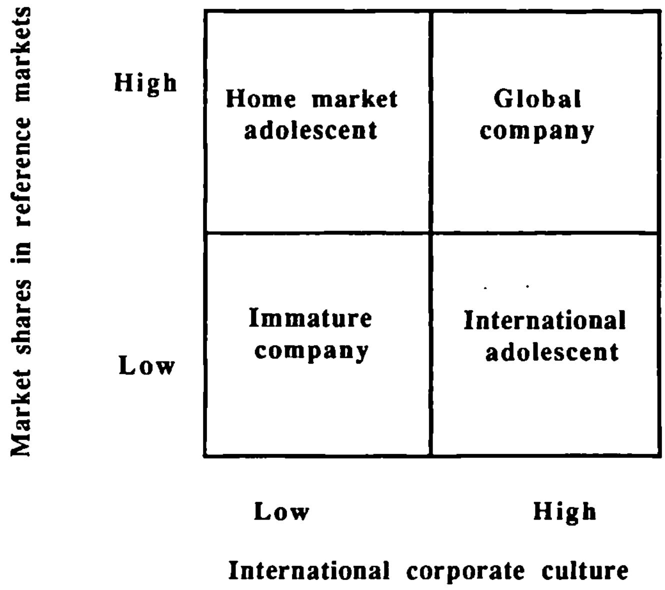

Figure 3.6: Preparedness for Internationalisation

1.The "globally" immature company, which has no or limited export activity, and which at the same time has no dominant position in its present markets. In international markets, this company will be particularly vulnerable in that it has limited experience and an unfavourable market share position (no cash cow). This, of course, has a bearing on the number of strategic options available to its management.

2. The "adolescent" company. There are two opposite types of adolescent firms: those with virtually no foreign experience, but with a firm position in the home market (the home market adolescent) and those (probably occurring much more rarely) with a small to medium market share at home, and with extensive experience from international marketing - the international adolescent. Firms in the first category have the necessary economic strength to carry out an international marketing campaign, but lack the experience and culture to do so and will probably make many mistakes in their first attempts to go abroad - cfr. the Uppsala School. The internationally adolescent firms may have the required skills, but not the strength to compete in global markets. Finally we have the firm which has acquired some international experience and/or a certain market position in major markets. This kind of firm should have some strength and/or corporate culture to gradually venture further into international markets.

One key point in this connection is that companies in this position do fill some of the "requirements" for a company prepared to meet the situation, but not all.

3. The internationally mature and global company, which has a dominant position in major markets and is also fully dependent on international sales, with all that entails of experience and ensuing corporate culture. Companies with these features should be well prepared to take on globalisation challenges.

It is important to emphasise that this third category is not only reserved for large MNEs or transnational companies in the terms of Bartlett and Ghoshal (1989). Also many SMBs (or at least "MBs") have achieved considerable positions in key world markets within their narrow niche, making traditional thinking of world players rather obsolete. As we shall see in the empirical findings, there are several companies in our sample, deserving this rank.

It should furthermore be stressed that preparedness for internationalisation has to be considered relative to the market situation confronted by the firm. The requirements are much less demanding in a multicountry market situation than in a global market situation. This point is partly taken care of by the inclusion of market share in *reference market*, the latter denoting the scope of the competitive challenges.

3.2 "Nine Strategic Windows"

In a three by three matrix - the "Nine Strategic Windows" - it is then possible to portray the strategic position of the individual firm, and evaluate to what extent it operates in a global industry and to what extent it is prepared to meet the challenges of the industry structure. The dimensions in the matrix are shown in figure 3.7: industry globality and preparedness for internationalisation. The third dimension, effect of globalisation drivers, which has to be juxtapposed to the grid gives indications of the direction and strength of the globalisation drivers that dominate the industry in question.

The next section describes the strategic posture of the firms in each of the nine strategic windows of the model, also taking account of the effects of the drivers. These latter may have the effect of moving a firm's position from the one defined by the industry's actual state of globality to the next stage on the "globality scale". For instance, if the globalisation drivers have a decisive and imminent (before two years) impact on the industry, the management has to consider its position one step ahead on the scale. If the impact is less imminent and operates with less force, the move should be less drastic. It is important to note that there is another effect of this move to the right in the grid: *the size of the reference market and its effect on the relative market share of the firm.* In fact, moving to the right entails a larger reference market and a resulting weaker share for the firm of this market - and vice versa. In a globalising industry, therefore, the passive firm will see its preparedness for internationalisation gradually deteriorate.

It is important to notice that the alternative strategies suggested in these nine windows delineate the *major international strategic focus* of the top management. Many other tasks relating to technology, marketing, human resource management or financial subjects have not been captured by the model. Yet, the proposed focus will have ramifications for these areas, and the way in which the company chooses to carry out these strategies, will depend to a large extent on factors such financial strength and human resource base. We have therefore in various instances included these two factors in the discussion of the different approaches to carry out the strategies.

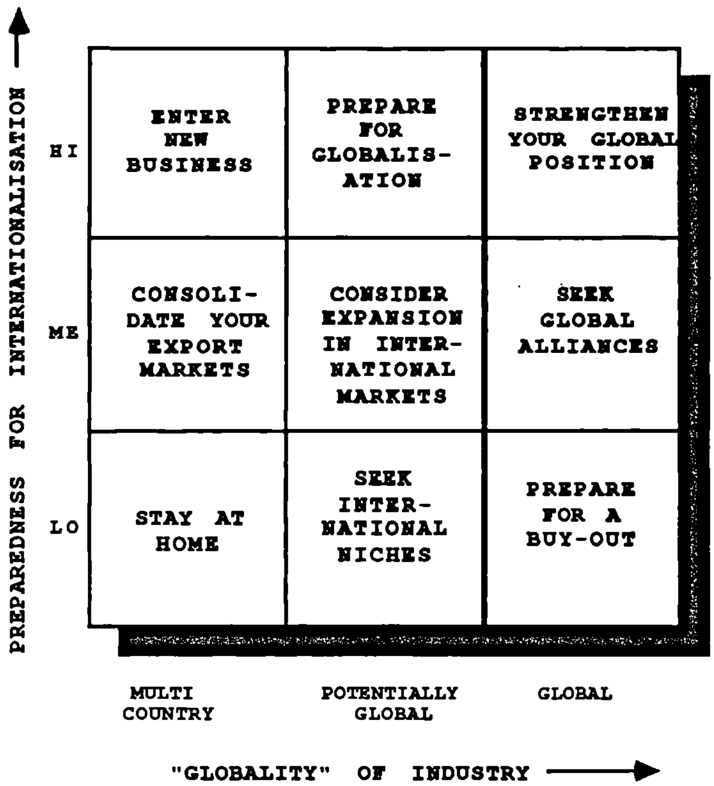

Figure 3.7: "Nine Strategic Windows"

1. Stay at Home

In this window there are no or limited threats from international competitors and there are few signs of globalisation drivers. The firm has little potential for international operations.

One may envisage four different approaches to the further development of firms in this position, according to the financial strength and international attitudes of the top management. If this latter has a strong penchant for international business, it should do something about it if the company at the same time is financially strong. One may of course debate the general wisdom of entering any foreign market in such a situation. The one reason that could justify a step toward other markets is the demonstrated correlation between success and export involvement (Solberg, 1987 and 1988). International sales will be a new dimension to the company and will force it to sharpen its competitive advantages. This will in the longer run also pay rewards in the home market. One advantage is the "protected" nature of the individual national markets which allows for a stepwise approach, whereby the company can move slowly and learn the "rules of the game" step by step without risking counterattacks in the home market.

If the company has a weak financial position, and an internationally proactive top management, it should consider changing this latter in favour of a more traditionally oriented "cost cutter" or home market specialist that can reposition the company at home. This is precisely what is recommended (cost reduction or market repositioning at home) if the company has a more internationally uninterested management team and a weak financial position.

Finally, an internationally passive management and a strong financial position should suggest a search for new business at home. Many companies in this situation enter the real estate market.

Companies in this position are normally not very vulnerable for changes in the international business environment. However, developments in the economic environment like EC-92 or the success of the GATT negotiations warrant attention from managers leading even this kind of firms.

2. Develop Niches in International Markets

In this square, the company is in a potentially global market, but lacks the necessary management resources to capitalise on this situation. It is more vulnerable to attack in the home market by foreign competitors, and does not live in the protected haven described above. It is therefore of paramount importance for this company to start to think internationally and, later, globally if it, in the longer term - when one or more of the globalisation drivers eventually shift (eg. EC 92) - intends to stay independent. How, will depend on its financial power and international attitudes of the management.

In companies with top managers devoid of interest/skills in international operations, the Board of Directors should initiate programs to develop a more internationally proactive management team, both in the case of a strong and weak financial position.

With an internationally proactive management in place, the company should seek as soon as possible to identify international niches. In developing niche strategies the company erects entry barriers through for instance more intensive customer follow up (shifting into another strategic group) and redefines its role in the market (it increases its relative market share) and, hence, makes it less vulnerable to global competitive forces. The question is, of course, to what extent is it possible to discern niches in the market in which the company can live "peacefully". In consumer markets with its numerous opportunities of segmentation, this may be more easily conceived than in industrial markets. In this latter it may be the case, but this presupposes that the firm can identify customers/end users who are willing to pay extra for some feature. In the case of shipyards, for instance, which are supposed to operate in a favourable market situation well into the 1990`s, it is not evident that this will be the case. As long as the ship owner has agreed to the sub-contractor short list, it is price and terms of delivery that count. It is therefore difficult to perceive other factors that entice the yard management to buy from suppliers offering products with "higher quality" or "special features" that should - in the eyes of the supplier - justify a higher price.

The suggested strategies are in this case either through a stepwise expansion in neighbouring markets, following the "traditional" internationalisation process ladder (Newbold et al 1978), and/or - if the company has sound finances - through acquisitions. This latter route to internationalisation is a perilous one. Several studies (see for instance Kitching, 1967) find that only a minor part of international acquisitions live up to expectations. If the company has no previous international experience, then it will also most likely lack the necessary culture to cope with foreign mergers and acquisitions. Of course, in the case of a company with extensive experience of buy outs in the home market, this factor will partly compensate for such shortcomings.

3. Prepare for a Buy-Out

In this strategic window, the company already finds itself in a global market and is a local dwarf among multinational giants. Chances are that the company has few possibilities to survive as an independent unit. There may be a slim opportunity to carve out a niche based on specific skills that respond to particular needs in a limited segment of the world market. In such a niche the company may develop a "protected" life. What the management in fact is achieving in this instance, is a repositioning of the company in another strategic group and, in our framework, another strategic window. It can divert into either of these three windows:

1. Identify a "Niche in International Markets", through redefining the nature of the business, for instance by entering more protected segments of the market (government contracts, fragmented or innovative distribution channels).

2. "Seek Global Alliances", by inviting a third party with the necessary "preparedness for internationalisation" to enter into a licencing agreement or to take a majority stake in the firm.

3."Consider Expansion in International Markets" through a combination of the two.

If this is not possible, the company should seek ways to increase its net worth so as to attract potential partners for a future buy-out bid. In this window one will find a number of hi-tech entrepreneurs with technological innovations addressing an international audience. In Norway and probably in other small countries there are a great many companies falling into this category, mainly emanating from the engineering oriented *milieu* of technological universities. Their home markets are often too limited to warrant sufficient economies of scale and the orientation of management is rather toward the technology than toward the market. The challenge for these companies lies in the conflict between on the one hand the lack of international corporate culture through a step-by-step learning approach in "protected" markets and lack of market or financial power, and on the other hand the threat of larger internationally oriented competitors with a broad marketing coverage entering the arena. This threat is exacerbated by the speed by which hi-tech innovations are diffused, copied or improved by competitors (see Ohmae, 1985).

4. Consolidate Export Markets

In this strategic window the company lives in "national markets", where transnational competition is limited and the markets are protected through barriers to trade. Still, enterpreneurial companies have succeeded in entering foreign and most often neighbouring markets. For example, this is the case of Scandinavian manufacturers of building products, furniture, sportswear etc., that they sell in each others markets and to some extent to the Continent; or the US manufacturer of canned beer that introduces its products in Canada, and perhaps obtains a small slice of the European market. What, then, are the strategic options for a company in this situation, which in the Porter (1986) framework may be called "multicountry" or "multilocal"?

Financial resources will be a major determinant in helping us identify the alternatives. If the company has a weak financial position, the management should review both the market and product mix and concentrate on the SBU´s that reward above average returns. The rest should be divested or harvested in a "traditional BCG-manner" (Kotler, 1991). The cash generated from this operation should be used to reinforce the strategic position of the SBU´s that are left. The "consolation" for this company is that the market climate is relatively protected (multidomestic markets) and therefore it will be able to work its way out in what could be termed a "calm international setting".

If the company has a strong financial base, it should consider further penetrating into major existing markets and assess opportunities for entering new markets. Because of relatively closed markets (local), licensing and/or foreign direct investments are but two relevant approaches when considering entry strategies for market expansion. Even though there are no signs of a globalising market, the company should capitalise on its marketing know-how and competitive and financial strength. One day, the market factors may start to move in the global direction, and the company should seek to be positioned to play a role.

5. Consider Expansion in Key International Markets

The middle of the grid denotes a situation full of potential both within the company and in the market. The company has "climbed" the internationalisation ladder and management is characterised by a proactive stance toward further international involvement. The challenge for the management is in this case to position the company in key world markets, or at least to seek to achieve a comfortable, if not dominant, market share in one region (Europe, North America, Far East). The rationale for this kind of objective is that an entrenched position in important markets will reduce the company's vulnerability to competitive pressures in the case of an eventual drive toward global markets. The objective of expansion, then, will vary greatly with the effect of globalisation drivers.

The approaches to achieve this expansion, will vary according to the specifics of the situation (for instance competitive structure, barriers to trade, demand pattern etc). In the case of third country structure of the competition, the company may wish to expand by entering into strategic alliances with competitors, so as not to exacerbate the competitive situation.

If the impeding factor is barriers to trade, for instance a closed distribution system (consumer goods with a handful of very powerful retail chains), it may again be advisable to enter into some form of alliance with major players in the market, to buy a market share. Idun of Norway (mustard, ketchup, mayonnaise etc.) did this by acquiring a Danish manufacturer of similar products. Another way to get around the barriers is to enter into licensing agreements and joint ventures. The one or the other approach will of course vary according to financial strength of the company.

Exporting is still another possible approach, and may be feasible if the barriers and demand patterns do not constitute effective barriers to entry. In many ways, gradually increasing the company's market presence through what one could term "controlled" exports, is preferrable in that the company in this way slowly but surely builds the international experience necessary to take on even bigger tasks in the future (Newbold et al, 1978); in this way the international corporate culture is allowed time to become embedded in the company (Solberg, 1988).

6. Seek Global Alliances

In this box, the company is still adolescent, but finds itself in a global market. This may apply in the case of Norsk Data, the troubled Norwegian mini computer manufacturer. This company had some SBU´s with a clear international potential, and others, where they were too small to survive in the long run. The logical answer to this situation is to sell out the SBU´s with limited potential and to invest in the SBU´s representing niches which perhaps find themselves in the potentially global box. In this way, the firm could have shed itself from the major players in the "mainstream" product areas, and slowly built market shares in more "protected" product areas.

One other strategic response to this situation is to seek alliances, either through extensive joint venturing or through marketing, subcontracting or R&D arrangements. In this position the firm has acquired the necessary skills in international business operations (adolescent) and should be able to cope with the challenges posed by complex negotiations with potential partners, without losing its independence. By means of alliances, the firm may overcome its competitive disadvantages in whatever field of activity is vulnerable (economies of scale, marketing network, technology development and so on, see Porter, 1986; Jain, 1987). The difference between the financially strong and weak companies is basically the leverage they will have in negotiations with their future partners, and in their capability to take initiatives. It seems, however, clear that companies in this position in the grid will not be able in the long run to defend their market position on their own, unless they are able to identify niches, or in other words change the position in the grid either to the left or upwards.

7. Enter New Business

In this strategic window, the company has achieved a leadership position in its most important markets, and/or is fully dependent on international sales. However, the individual markets are nationally oriented in that the competition is made up of nationals, and market accessibility is limited. The case of the financially weak company is similar to that in window #4: consolidate, review your product/market mix. A company with sound finances should - depending on how closed the international markets really are (is it possible to expand further in international markets, or are the markets closed for entry or further penetration?) - either seek to expand further in new international markets (East Europe, NICs?) or enter new business areas.

8. Prepare for Globalisation

For the internationally mature company in a potentially global market, strategies may be warranted that are geared toward globalisation. The company has to prepare itself for eventual shifts in the international environment that move the industry toward a more global structure. Companies with extensive international operations find themselves in this strategic window. Kverneland´s (1988) description of Japanese multinationals may proxy the features of a company in the process of becoming a global competitor:

> "They manage their business as a single system (through export based strategies), combining global-scale cost advantages with high quality. They have well established relationships with local customers in a rapidly growing home market. In addition, they have also achieved a strong foothold in the NICs which account for a substantial proportion of the Japanese firms´ gains in world market shares in the 1970´s" (p. 225).

The analysis of the imminence and impact of the globalisation drivers is critical to companies in this box. To what extent, for instance, will the harmonisation of standards in the EU impact on the industry structure? To what extent will our company´s reactions to the development in itself bring about change in the industry structure?

A company with comfortable financial strength is in a position to adopt an aggressive stance to the possible changes in the industry, through for instance acquisitions. Norsk Hydro´s Fertilizer Division is an example of such behavior. Since the middle of the 1970´s when they started to harvest the fruits of their investments in the North Sea, they have stubbornly and consistently carved out a dominant position in the European fertilizer industry through acquisitions and joint ventures. The industry structure may still be classified as potentially global, but Norsk Hydro has a good basis not only to meet the situation in a more global market, but also to play a decisive role in this development.

A financially weaker company will have to play with other "instruments". One alternative is in this case to seek alliances with major actors in the market. One example is Jordan of Norway (toothbrushes) which is a market leader or number two in major markets in Europe, but still a dwarf against the big retail giants in Europe. In order to achieve a leverage in this situation, Jordan seeks alliances through interactive participation with major distributors of hygiene products, these latter having the necessary market power in dealing with the supermarket chains.

One important distinction between the above types of alliances and "strategic alliances", lies in the global scope of these latter, or in other words, the competitive arena and the consequences of the alliance (Hamill, El-Hajjar, 1990) as opposed to the more local focus of joint ventures or acquisitions in individual markets. According to Perlmutter and Heenan (1986):

> "Not all efforts to mold international coalitions are either strategic or global; some are mere extensions of traditional joint ventures - localised partnership with a focus on a single national maket".

The above alliances seem to fall into this category. However, the aggregate effects of these local alliances may be to position the company to act more globally. Thus, the actions taken by the company may in themselves constitute a globalising driving force: Norsk Hydro´s Fertilizer Division may be a case in point.

9. Strengthen Your Global Position

In this window, the company is already in a global market, and plays a decisive role in this market. Within its industry the company is among the major "chessplayers" (Rugman and Verbeke, 1989) in the global market place.

Even if this seems to be the "terminus" of a long voyage toward the "global village", the dynamism of international trade will force the players in this window to be alert and carry out both preventive and more proactive policies. Changes in demand patterns and customer preferences, the volatility of the reference market, changes in the cost position of both the different countries and the individual players in the market, new technologies, political events, etc. will all contribute to a market being constantly on the move. A key element to become a global player - or a "Triad Power" (Ohmae 1985) - seems to be to secure access to the Japanese market. Without a firm foothold in this large and still growing market, the "global" firm is vulnerable to Japanese competitive attack in other markets. Citing Kverneland (1988, p. 225): "Japanese firms´ success in certain global industries could make counter-competitive actions in Japan an important component of competitors´ world wide strategy."

Companies in this situation should therefore identify the pivotal elements in this picture and develop an organisation capable of rapidly reacting to changes and events in the "global village". Using Bartlett´s and Ghoshal´s (1989) framework, management seems to have two possible approaches in this situation: 1) global organisation or 2) transnational organisation. The difference between these is that in the global solution the location of country and firm specific advantages remains mainly with the parent company (which may be the case of Far Eastern newly industrialised countries), whereas in the transnational solution, the company develops a coordinated interplay between the parent company and its subsidiaries (a relevant approach for West European companies).

3.3 Conclusions

The major thrust of this model is to demonstrate the effects on business and marketing strategy of different international settings. The approach taken differs from other authors in that account is taken of the combined effect the degree of globality in the particular industry, with the impact of globalisation drivers and the degree of international preparedness of the company. In this way, the author hopes to have introduced an analytical tool designed to give direction to the international involvement of the firm which can be useful to multinationals and home market oriented SMB´s alike.

One may ask the question if it is possible to create an all-encompassing framework of analysis in which international newcomers and SMB´s share space in the grid with large multinational enterprises. The issues confronting these different categories of companies are - it is true - widely different, and one may argue that they should not be discussed in the same context. Even though the framework does not deal with large MNEs as such, but rather with individual strategic business units within MNEs, the issues are different. The framework offers, in fact, an attempt to place the theories applying to the different categories of companies in a comprehensive perspective. This has been shown in figure 3.1.

The focus of the present study is on the windows of the middle to lower - middle to left part of the model. It is presupposed that this is the competitive arena of SMBs, and therefore that most of the cases will be located here. This is later being reflected in the development of propositions in Chapter four.

Chapter Four
Methodology

Chapter Four
Methodology

Chapter three of this thesis outlined a model for international strategy development. On this basis nine hypotheses of strategic responses to the various strategic situations of firms facing different competitive environments in the international market arena were developed. In this chapter a method for the testing a set of propositions based on the logic of this model will be described. The chapter starts out with a discussion of the main methodological approach of this study. Then follows a section on research questions and propositions relevant to the issues being raised in this thesis: strategic responses of SMBs to globalisation trends. Then follows a discussion of the case selection, the operationalisation of the variables of the model, the data collection procedures and the criteria used to assess the results of the research. Finally, the validity of the results is discussed.

4.1 Research Design

Throughout chapter two and three a theoretical framework for the analyses was developed, based on four main strands of literature: modern trade and investment theories, industrial organisation, export behaviour and global strategy and management. It appears that this vast paradigmatic reach of the present study does not easily lend itself to traditional research approaches. This section will therefore briefly review the two main research orientations - the positivist and phenomenologist research philosophies - and develop a research design relevant to the issues raised in the present thesis.

There is an inherent conflict between the two main research philosophies - the positivist and the phenomenological paradigms (Easterbury-Smith et al, 1991). Table 4.1 illustrates this conflict.

Table 4.1: Consequences of Two Research Philosophies

Positivist Paradigm	*Phenomenologist Paradigm*
Science is value free	Science is driven by human interest
The world is external and objective	The world is socially constructed and subjective
Theory development through deduction (hypotheses testing)	Theory development through induction from data.
Focus on facts	Focus on meanings
Stringent operationalisation of measurable concepts	Triangulation of findings through multiple methods
Quantitative and large samples	Qualitative and small samples (cases studies)
Easy to replicate	Difficult to replicate

Based on Easterbury Smith et al., 1991.

It has been noted that even though the distinction between the two camps is very clear at the philosophical level, researchers increasingly mix the two approaches (Punch, 1986; Bulmer, 1988). Arndt (1985), discussing the situation in the marketing field, suggests that scientists only accepting one research approach end up as prisoners of their own paradigm, and in this way precludes scientific progress. Fielding and Fielding (1986) advocate the use of both qualitative and quantitative research methods in scientific work.

In the present study the conflict between the two research orientations is not resolved in a straight forward manner. There are two reasons for this:

1) The literature review and the construction of the model (the "Nine strategic windows") lend themselves to logically deduce propositions based on the model, and hence invite the author to recur to a quantitative hypothesis-testing survey in the positivist tradition. Therefore, the somewhat more contemplative and explorative social constructionist approach, so much advocated by Glaser and Strauss (1967), is not really called for.

2) On the other hand, the research problem is not only based on a multitude of different scientific research strands, also it involves the study of complex relationships between the dependent variable (strategic focus of the firm) and the independent variables (preparedness for internationalisation and globality of industry structure), themselves being difficult to clearly define. These factors make a strong case for a more qualitative approach.

Yin (1989) in his approach to case study research offers a solution to bridge this conflict. In fact, he deviates from authors like Glaser and Strauss (1967) and Eisenhardt (1989) in that he contends it is possible to recur to hypothesis testing by using case studies. Even though there are potential threats to pattern-matching, Yin (1989, pp. 109-113) strongly advocates the "blessings" of this approach to test theoretical propositions (p. 109):

> "For case study analysis, one of the most desirable strategies is the use of a pattern-matching logic. Such a logic compares an empirically based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its *internal validity* .
>
> If the case study is an explanatory one, the patterns may be related to the dependent or the independent variables of study (or both). If the case study is a descriptive one, pattern matching is still relevant, as long as the predicted pattern of specific variables is defined prior to collection" (itallics by Yin).

In the present study, the "Nine strategic windows" constitute the point of departure to develop the predicted pattern of strategic focus to which to relate the observed pattern.

Yin (1989) also contrasts the case study method with surveys regarding the sampling logic and its consequences for theoretical generalisations. In survey sampling, the purpose is to achieve a *representative sample of the total population*, so as to be able to make statistical generalisations concerning the whole population. In case studies the purpose is to *select cases to fit the predicted outcomes*, and to *analytically* infer the theoretical implications. He therefore insists that survey samples by nature differ from case selection: case studies are not used to assess the incidence of a phenomenon, nor is it practicably feasible to include the large number of cases normally necessary to cast light on detailed and complex relations often raised in case studies.

It should be clear by now that the present study is carried out through case research. However, since the model is one with several dimensions and a number of possible outcomes, there is a strong case for introducing many case subjects (see later). The remainder of this section will describe the procedure to follow when doing case study research. Yin (1989) suggests a five step approach:

1. define the research questions
2. formulate the propositions or hypotheses, if any
3. select the cases and the unit(s) of analysis
4. establish the logic linking between the data and the propositions, and
5. establish the criteria for interpreting the findings.

Concerning the first one, it is important that the form of the question is relevant to the method to be used. In case studies, the form should be - still according to Yin (1989) - "how" or "why". In the present study the questions may for instance take the following form: "How can SMBs survive in an ever globalising world economy?" The next step is to state a purpose or a set of propositions. In this instance the model developed in Chapter three will help the author direct the development of propositions.

The cases and the unit(s) of analysis are critical to any research and one critical problem is to define what the "case" is. It is near at hand to define the case as being the firm or the SBU (of larger concerns). It is also possible to define the participants in the strategic process within the firm or even particular events during this process as the units of analysis. However, the present research is more concerned with strategic *content* than with the process and the author is therefore inclined to use the firm (or SBU) as the unit of analysis.

Yin (1989, p. 33-34) admits that the two last steps in this process (linking data to propositions and identifying criteria for interpretation) still represent the weak points in case study research. However, pattern-matching as described above is one way out of the dilemma, and in the present study this method for testing the results will be used. Criteria for interpretation are even worse to come about, particularly because the strategic orientation as expressed by the "Nine strategic windows" may in practice manifest itself in many different forms which should be carefully classified. Experience and intuition therefore will play an important role during the classification of the cases.

4.2 Research Questions and Propositions

We have already discussed what kind of research questions should be asked in this study. This section will biefly discuss them in somewhat more detail and develop a set of propositions to be tested.

As stated in the introduction, the main thrust of this thesis is to "test a model, the "Nine strategic windows", representing an analytical framework for strategic choice for SMBs in world markets". The purpose of this framework is to help SMBs define their strategic responses to globalisation trends and the challenges posed by these trends.

There are two main research questions ensuing from this objective:

1. "How can SMBs survive in an ever globalising world economy?" Answers to this question will help firms in their pursuit of the "optimal strategic fit" (if any such exists!!), or at least to avoid developing strategies which do not promote the long term interests of the firm (to survive as independent entities).

2. "Why will certain firms follow the "correct" strategy whereas others will not?", or put in another way: "Is any one strategic choice leading to better results than another one?" Lying behind these questions is the main proposition that firms following the advice given in the model will fare better (higher returns on sales and/or remain independent) than those not doing so.

Relative to the model developed in chapter three, it is supposed that SMBs generally will find themselves in the low to medium part and in the middle to left part in the grid, with consequences for the propositions relevant to the issues raised in the thesis.

The reason behind this assumption is that most SMBs will not have developed the necessary market shares and/or international organisational culture to warrant a position in the "well prepared" category in the model. Also, it is expected that SMBs to a large extent operate in industries that have not yet become "fully" global, for the very reason that they lack the necessary "preparedness" to cope with the challenges posed by the strategic situations in the right part of the grid. However, introducing the dynamic dimension of the model (the strength of the globalisation drivers), some SMBs may "inadvertedly" find themselves in the very right part of the grid. We will therefore include also the global stage of the grid in the hypotheses. On this basis four propositions have been developed.

P1.1: SMBs operating in an industry structure categorised as multilocal will tend to secure their positions in existing markets, rather than expanding into new markets. The major reason for this strategic focus is that they have not the necessary preparedness for internationalisation, nor are they challenged by globalisation drivers to venture into new markets.

P1.2: SMBs in this position (multilocal) who nevertheless do engage in international markets, do so by a stepwise approach, and are more driven by internal motivations than by external pressures. Such motivations may derive from elements of international corporate culture within the firm, a relatively strong position in the reference market (usually the home market) and/or a preferential access to international customers (for instance through the international network of the mother company).

P2: SMBs operating in markets that are labeled potentially global, seek actively to expand their activities in international markets. The less they are prepared to expand in new markets, the more they tend to seek well defined market niches, so as to "shelter" themselves from competition by large multinational firms. The main motivations for these strategic moves are preemptive - in order to capture a positition in key markets before risking to be defencelessly "swept out of" the home market as a consequence of the globalising competition.

P3: SMBs who find themselves in global markets are more likely to seek strategic partners with a position in international markets. In the case of firms with low preparedness for internationalisation, the partner will tend to acquire the firm. In the case of higher preparedness, the partnership is more likely to be based on other arrangements, such as joint ownership of specific SBUs, cross-ownership, joint project development ventures etc.

P4: Small and medium sized SBUs of larger concerns will be in a better position to venture into globalising markets than independent SMBs. The main argument for this proposition lies in the fact that large concerns often have developed an international network and thereby an awareness of threats and opportunities in the international market place indirectly benefitting the "preparedness for interantionalization" of the smaller and more inexperienced SBU. The lack of cash flow because of minor market shares in the reference markets is also partly compensated by the supposed financial strength of the mother company.

4.3 Unit of Analysis - Case Selection

It has already been stated that the unit of analysis should be the firm. From the research questions and the propositions it can also be inferred that the firm should be an SMB or an SBU of a larger concern. In this section these two terms will be discussed and the case selection for the study described.

4.3.1 What is an SMB and an Independent SBU?

The definition of small and medium sized companies varies greatly according to country and industry. In the US an SMB is defined as a company with less than 500 employees. In Britain this definition varies according to industry, 100 to 500 employees, but the "normal" size of SMBs is up to 200 people (Ganguly and Bannock, 1985). In Norway companies with less than 100 employees are classified as SMBs by NHO -

Næringslivets Hovedorganisasjon (Confederation of Norwegian Industries), whereas the Association of Industries in Information Technologies defines medium sized firms as having between 100 and 500 employees. Dichtl et al (1984) use the term "Mittelstand" encompassing self employed and small and medium-sized commercial firms.

> "However, any quantitative definition based for example on criteria such as ´number of employees` or ´sales volume` , is inadequate to reflect the meaning of this term. The statement by the Federal government of Western Germany that ´the existence of small and medium-sized business is the best guarantee for the continuation of a liberal economic system and thus essential for a free and democratic society` gives some insight in the economic and social dimensions of this type of firm and the need for a qualitative definition. The management by the proprietors, who also bear the commercial risk, is the most important qualitative criterion pertaining to small and medium-sized firms" (p. 58).

Ganguly and Bannock (1985) put forward three basic aspects of SMBs (p. 3):

- "A small firm has a relatively small share of the market.
- The firm is managed in a personalised way by its owner or part owners.
- It is independent in that it does not form part of a larger enterprise and is free from outside control when making major decisions."

Later in the introductory chapter, they conclude that:

> " there are no easy answers and it will come as no surprise that the search for a definition of a small firm is far from over. Not only are there conceptual problems in the way of a universal definition which is the most suitable for all purposes, there are the practical problems of inadequate data which make it difficult to test all but the simplest data..... The Department of Trade and Industry has thus decided not to go for a single definition but to adopt a flexible attitude which, within the broad guidelines discussed, allows each case to be looked at on its merits". (p. 5).

Independently of number of employees or sales, or any other definition of SMBs, some common features of SMBs are of interest in the context of globalising markets:

- Scarcity of top management resources
- Top management is often the owner, or has a dominant ownership position
- Many functional activities are taken care of by few people
- Low overhead costs
- Flexibility of operations, both manufacturing and marketing
- Efficient internal communication
- Lack of financial resources and staying power
- Lack of international marketing network.

These features have led practitioners and academics alike to conclude that SMBs are particularly vulnerable in the wake of increasing international competition and globalisation trends. Furthermore, as SMBs constitute an important part of the industrial structure of most countries (cfr. Dichtl et al, 1984), it is of particular importance to understand how globalisation forces impact on this class of companies. Also, the concept of independence of the SMB (or SBU of larger companies) is of great importance for smaller nations like the Scandinavian or the Benelux countries, in that the management culture of every nation is to a large extent bred in the context of each individual company. These latter form in a way a web of management subcultures which constitute an important base for recruitment and development of key personnel. If the decision centers of these companies are transferred to foreign MNEs, the risk is that this web of managers and the cultures that go with them will gradually disappear, and with it, the competitive advantage of that nation (Porter, 1990).

How should one then define the word "independence"? Adopting the position of Ganguly and Bannock (1985), one may state that a company (or strategic busines unit - SBU) is said to be independent when the management of that company/SBU is in the position to determine its strategies and policies independently of any "integrator" (ie. majority share holder integrating the company´s activities in its operations). Whenever a company is acquired by another company, the former may maintain its strategic independence or it may lose it. It is maintained if the mother company only operates as a holding company. From this extreme to the other end of the scale where the acquired company is totally "administred", or integrated in the mother company's manufacturing and marketing "grand design", there are of course all shades of variations. One indicator of the independence of the company could be the kind of operations (R&D, purchasing, manufacturing, marketing, financing, budgetting, etc.) performed and governed by its own staff and how much is carried out by the head quarter of the "integrator". If a majority of key tasks is carried out by its own staff, then this operation may be termed "independent", even if the company or SBU in question is part of a larger conglomerate. Some examples drawn from the Norwegian industry may clarify this concept of independence:

ABB-ABBNorway-ABBNera-ABBSatcom

Asea-Brown-Boveri bought in the middle of the 80íes a majority stake (63%) in ABB Norway increasing its stake to 100% in 1991. ABB Norway is to Norwegian standards a large company with yearly sales of about 10 billion NOK (1,5 billion USD). As part of ABB's philosophy of decentralisation, they left with ABB Norway the strategic responsibility of one of their eight business areas, communication technology. ABBNera (total sales of about 1 billion NOK) was acquired by ABB Norway (or its precursor, Elektrisk Bureau) in the 70ies and has now the status of an independent daughter company in the ABB family, with world wide responsability within the concern of its activities. Its main areas of activity are within high capacity communication within radio link, satellite and power generation. ABBNera's SATCOM division (350 million NOK) is in its turn a quasi independent SBU, with its own R&D, manufacturing and marketing, but sharing functions like financing and purchasing with ABBNera.

Orkla-Nora-Idun-Dragsbæk

Orkla and Nora merged their businesses in 1991, and formed the Orkla Holding company, with activities in businesses as different as media, food, paper, paint. Nora Industrier AS is Norway's largest food and beverage company (total sales: 5,8 billion NOK), with a long range of activities (confectionary, beer, soft drinks - Coke-licensee, salad dressing, ketchup, etc). Each of these activities constitute an SBU. Idun (820 million NOK) is the company in the Nora group that is responsible for dressing/ketchup and related products. They operate relatively independently from the mother company, but need its support in larger projects (like for instance acquisitions). In 1989 Idun acquired Dragsbæk of Denmark, incorporating this latter's activities in its total strategic concept, with production sharing and integration. In this case it would appropriate to term Idun as being relatively independent, whereas Dragsbæk has ceased to operate independently.

Indeed, neither of these companies (ABB, Orkla) may be termed an SMB! What about ABBSatcom and Dragsbæk? The former is - in terms of billings and people employed - a medium sized SBU in the ABB system, having maintained its strategic and operational independence. Considering ABBSatcoms shares in world markets (#1 and 2 in its niches), the SBU might qualify to join the "club" of mature international corporations. As such, they are well positioned to maintain and further develop a market oriented decision culture. On the other hand, Dragsbæk was an SMB until its take-over by Idun. Because of "internal" considerations the owners opted to sell, and thus transfer the strategic independence to the new mother company; the owners abandoned the objective of independence. One may say that the company ceased to exist as an independent SBU.

One may of course ask the question: "Is any company independent"? There are all sorts of audiences on which management depend to a greater or lesser extent. So, even the IBMs or Mitsubishis of this world depend on their audiences.... We shall not dwell long on this discussion of independence, which very soon may become too philosophical for the purpose of this study. Rather, we shall proceed to describe the sample to be used in our analysis.

4.3.2 Case Selection Procedure

There are four different approaches in case study research, as illustrated in figure 4.1 (Yin, 1989, pp. 46-60):

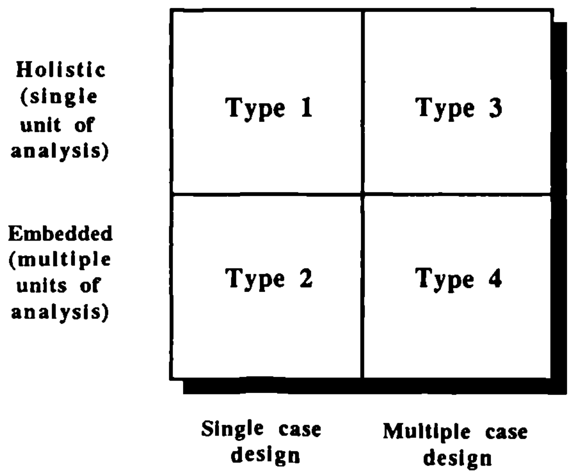

Figure 4.1: Typology of Case Study Designs
Source: Yin, 1989

In the present study we have chosen the holistic multiple case approach. The author has selected several cases and each case consists of only one unit (the SMB or the SBU). There were two rationales for this choice:

1) The propositions encompass strategic positions in different places of the model. As one SMB normally only occupies one position of the grid, it has been necessary to ensure the coverage of a larger part in order to cast light on all the propositions (which are derived from different parts of the grid).

2) We have chosen only one unit of analysis within the company, as we have been more concerned with the *content* of strategy rather than the process and thereby the actors in the process (see above).

In order to identify the cases a set of criteria has been used:

1. The cases should reflect different kinds of companies as to the three dimensions in the model. As an *ex ante* positioning according to these dimensions is impossible without a thorough knowledge of the firms in question, two sectors of the Norwegian export industry were identified, with a high probability to find firms meeting this requirement: the ship equipment industry, deemed to be rather internationally oriented and also operating in an international competitive environment, and the construction business with the opposite features.

2. The cases should, indeed, consist of SMBs (both privately owned and quoted at the Oslo Stock Exchange - Oslo Børs) and independent SBUs of larger concerns. The definition of SMB/SBU used in this context is as follows:

1) In general the SMB/SBU should have less than 500 employees. In some instances the author has deviated from this "rule" (contractors), because these firms - even those employing more than 2.000 people - are dwarfs in the international construction/civil engineer market.
2) Management should operate independently from mother company (or any other dominant "external" owner) in key strategic areas like

market selection, product development, entry modes and key marketing mix variables.

3. The SMBs/SBUs should have had at least some experience in international markets.

With these criteria the following cases were selected:

Ship Equipment Industry

The ship equipment industry encompasses anything from rescue boats to communication devices on board the ship, from diesel engines to furniture and electrical fictures. This industry is of interest from several perspectives:

- Many companies are located in outlying regions of the country and are as such important for the development of the local industry. Politically it is therefore important to maintain and further develop this part of the country´s industry. About 12,000 people are employed in this industry with annual sales of about 10 billion NOK. Its export share is in the neighourhood of 55%.

- Norway has an industrial milieu within this particular industry which is regarded as a competitive advantage, with an industrial cluster (Porter, 1990; Reve et al, 1992) encompassing both shipowners, equipment manufacturers, yards, brokers, financial institutes, insurance, research institutes and quality control.

- The industry is made up of all kinds of companies: small and medium sized companies, large concerns both Norwegian and foreign, and smaller divisions/SBUs owned by large concerns. There is also a trend in the industry toward a more concentrated industry structure either in the form of conglomerates (Ulstein and Kværner), as smaller holding companies (Bird) or as mergers of smaller entities (Langstein/Aukra). An important issue in this context is the extent to which the companies manage to survive as independant entities within larger concerns.

The following companies are included in the sample:

Company A is family owned and manufactures deck gear with sales in 1990 of around 250 mill NOK. It employs about 270 people and is represented through an agency network in most key markets in Europe and the Far East. It has also a licencing agreement with a Japanese partner.

Company B manufactures electronic devices both for civil and defence purposes. The sales are in the 450 million NOKs and the company has 210 employees. In this report we have studied the product group dealing with the defence sector (60 million NOK). It is quoted on the Oslo Stock Exchange.

Company C is one of the world leaders within maritime communication and is a division of a large multinational concern. Its sales were in the region of 350 million NOK.

Company D is a manufacturer of deck gear with annual sales of 90 million NOK and 110 employees. The company belongs to a large ship equipment group in Norway.

Company E is a producer of valves mainly to gas carriers. It maintains to be the world leader within its very special niche of valves with annual sales of only 60 million NOK and 58 employees. The company is a division of a holding company quoted on the Oslo Stock Exchange.

Company F is a family owned manufacturer of deck gear. The annual sales passes 50 million NOK and the company employs 57 people.

Company G produces autopilots for ships and small vessels. The sales are in the neighourhood of 150 million NOK, with 130 people employed. It is part of a holding company quoted on the Oslo Stock Exchange.

Company H manufactures propellers with annual sales of 220 million NOK and with 230 employees. It is part of a large concern within mechanical engineering industry.

Company I is one of three Norwegian ship automation suppliers, with 62 employees and annual sales of about 90 million NOK. The company was until recently owned by an investor group working to turn around and improve its results. It was finally sold to a group of electronics manufacturers.

Company J produces auxiliary diesel engines and is part of a larger group within mechanical engineering. Its annual sales are around 300 million NOK and it has 330 employees.

Company K manufactures electrical and lighting fixtures mainly to "land based" industry, but also for the maritime sector. The annual sales are in the neighbourhood of 900 million NOK and number of employees are also in the 900s.

Table 4.2 indicates the group appurtinance of the individual company and classify the companies according to size, export dependency, return on sales and ownership structure.

Table 4.2: Features of Case Companies - Ship Equipment

Company	*Year*	*Sales mill NOK*	*Exports %*	*Return on Sales %*	*Ownership*
Electronics					
B	1988	450	64	14	Stock Exchange
C	1989	350	75	3	International concern
G	1989	120	93	9	Stock Exchange holding
I	1988	90	65	neg	Investor group
K	1988	600	65	4	Family
Mech. Engineering					
A	1988	250	60	1	Family
D	1989	90	80	3	Concern
E	1988	60	57	7	Stock Exchange holding
F	1989	70	60	2	Family
H	1988	220	98	4	Concern
J	1988	340	83	8	Concern

For unknown reasons, company J did not join the second round of investigation in 1993.

Construction Industry

The construction industry in Norway is composed of many different sectors: architects, engineering firms, contractors, builders, saw mills, wood processing firms, manufacturers of a diversity of building products (concrete elements, insulation materials, etc). A common denominator of most of these industry sectors is

- their home market orientation, and therefore
- their vulnerability of a particularly depressed construction market in Norway since the last half of 1980´s.

The construction industry holds a critical position in Norway´s economy, illustrated by two factors: investments in this industry constitute about 50% of the kingdoms total investments; one out of five work places depend on this industry.[6] By the middle of last decade, a Government-appointed project group was commissioned to analyse and initiate projects to promote

[6]Source: NOU 1983:28, "Perspectivanalyse for bygg og anleggsnæringene 1980-2000" (Government white paper on the construction industry to year 2000)

the construction industry in Norway, the socalled 3B-project (Bygg Bedre Boliger - in English: Build Better Dwellings). One of the main projects focused on the internationalisation of the industry. The results from the various sub-projects of the internationalisation group of projects may be qualified as meagre.[7]

Companies from different parts of the industry have been selected:

Construction companies	3
Woodworking companies	4
Saw mills	3
Manufacturers of prefabricated houses	1

The sample companies are presented below:

Company A is a leading manufacturer of interior fittings (kitchen and bathroom) in Norway, with a yearly sales volume of 410 mill NOK and an export share on sales of about 5%. The firm is a division of a large Norwegian concern quoted at the Oslo Stock Exchange

Company B is a manufacturer of doors and windows, with sales of 60 mill NOK, mainly to Norway. The company has limited exports to Sweden, UK and Japan. In 1990, the company was transferred to new owners.

Company C is one of Norway's leading suppliers of prefabricated houses. The company has struggled with low order stocks and overcapacity caused by the strong downturn in the Norwegian home market since 1986. Subject to management take over the company was refinanced and restructured at the turn of last decade. Total sales are in the neighbourhood of 350 mill. NOK, most of which is sold to Norway.

Company D is a division of a large Norwegian sawmill conglomerate with ownership interests in several sawmills in Scandinavia. The company delivers sawn wood and wood components for assembly (furniture, window frames etc.). Total sales are in the order of 850 mill NOK, half of which is exported, mainly from their daughter companies in Sweden. The owner company is quoted on the Oslo Stock Exchange.

Company E is a division in a privately owned company operating in the forestry and woodworking industry. It operates a large sawmill with yearly sales of about 125 mill NOK. Exports amount to about 40% of sales.

Company F is one of Norway's leading contractors. Sales in the order of 2.410 mill. Even though the company has carried out work in overseas markets, the exports represent only a fraction of total sales. The company is quoted at the Oslo Stock Exchange.

[7] Sluttrapport fra 3B-prosjektet, Kommunal og Arbeids Departementet, 1989. (Final report of the 3B project).

Company G is one of Norway's leading contractors with sales in the order of 1.600 NOK. Even though the company has carried out work in overseas markets, the exports represent only a fraction of total sales. The company was acquired by company F in 1991.

Company H is one of Norway's leading contractors. Sales in the order of 4.860 mill NOK. Even though the company has carried out work in overseas markets, the exports represent only a fraction of total sales. The company is owned by a private holding group (2/3) and the largest Swedish contractor (1/3).

Company I is a joint venture of several small manufacturers of doors and windows, with total sales of some 900 mill. NOK. The last couple of years, the company has taken steps to get introduced to continental Europe.

Company J is a small manufacturer of laminated wood, with sales of 22 mill. NOK. The export share is relatively high, with sales primarily to Sweden and the UK. The company is owned by a large privately owned concern.

Company K is a joint venture of manufacturers of windows and doors. Total sales are in the order of 130 mill NOK, with limited exports representing only 7% of sales. Most of the exports end up in Sweden.

Company L is a sawmill located in Sweden, but owned by a large Norwegian concern quoted at the Oslo Stock Exchange. Total sales are in the order of 380 mill. NOK, 70% of which are exported, mainly to Northern Europe.

Table 4.3 gives a brief review of the case companies according to size, export dependency, return on sales and ownership structure.

Table 4.3: Features of Case Companies - Construction Industry

Company	*Year*	*Sales mill NOK*	*Exports %*	*Return on Sales %*	*Ownership*
Saw mills					
D	1989	845	49	8	Division of concern
E	1989	125	40	na	Family
L	1989	380	70	7	Division of concern
Wood working industry					
A	1989	410	3	5	Division of concern
B	1988	90	12	na	External investor group
I	1989	900	6	na	Joint venture
J	1989	22	39	6	Private holding
K	1989	130	7	na	Joint venture
Contractors/prefabricated houses					
F	1989	2.410	4	4	Stock Exchange
G	1989	1.600	0	neg	Division of concern
H	1989	2.410	6	neg	Stock Exchange
C	1989	350	0	1	Investor group/management

4.4 Operationalisation of the Variables

This section defines the variables used in the study. The most critical part is to define the independent variables which form the basis for the model presented in Chapter three (the "Nine strategic windows"). In the following this construct will be further developed and the three independent variables in the model will be operationalised. The more subtle task of classifying strategic content (the dependent variable) will also be discussed.

Not "all" facets of the case companies will be analysed; only the parts of the companies that have been deemed relevant to elucidate the propositions have been subject to the study. For instance, phenomena such as the firms' organisational structure or their cost competitiveness have not been included. These factors have been the subject of important contributions to MNC literature (e.g. the strategy-structure-string of research, see among others Stopford and Wells, 1972 and their "successors") and the literature on international trade and foreign direct investment (e.g. the locational advantages in Dunning's work). These factors have been occasionally commented on, but have not been a major focus of the study.

4.4.1 Independent Variables

Three main independent variables have been identified: globality of industry structure, globalisation drivers and preparedness for internationalisation.

Globality of industry

This factor describes the extent of global competitive structure in the industry. The problem of properly defining the industry is critical to this analysis because it has a bearing on the understandeing of the position in the market of the firm. The problem has two different faces:

1) The ongoing rivalry between existing competitors appears often in different segments in the market, many of which partly overlap each other. The result of this phenomenon is that a company which can be a competitor in one market segment does not necessarily represent a threat in

"neighbouring" segments. This dilemma has already been described when discussing strategic groups in section 2.2.3.

2) Another factor aggravating this problem is the dynamism present in all types of industries; for instance in the computer industry, the borderline between PCs and large mainframe computers has constantly been challenged by the advent of new microchip technologies.

Porter´s (1980) model of industry structure may give us guidelines (industry rivalry, potential entrants, substitute products, customers) to solve the dilemma. However, the present study concentrates generally on the *existing* rivalry within the market segments being served by the case firms. The main reason for this stance is that most of the case firms are following a niche strategy, which may for a period "protect" them from new entrants/ substitutes. Being well aware of the threats to niche strategies (Porter, 1980), the author still feels comfortable with this limited defintion of industry, also because of the sheer impossibility of accurately defining the delineation of an industry. In order to assess the confines of the industry - both concerning product and geographic reach - pertaining to each case firm, the author will therefore proceed as follows (the numbers in parentheses indicate the corresponding questions in the questionnaire, appendix 1):

- Definition of the products offered and the main customers/applications of these products.
- Classification of the major competitors offering the same products to the same customers, including their market shares in individual markets as well as globally (3, 4, 5, 6, 7).
- The extent to which the competitors have penetrated (Sölvell, 1987) several (key) markets (3, 5).
- The existence of one "world price" level and the extent to which there is international retaliatory pricing (or other use of marketing tools) in the industry (5).

Impact of globalisation drivers

Section 2.2.5 discussed the impact of globalisation drivers and gave mention to the most important among these. This subsection describes how this dimension can be operationalised (the numbers in parentheses indicate the corresponding question in the questionnaire, appendix 1):

- Demand homogenisation refers to the process of converging demand patterns in the world. This factor concerns first and foremost the cultural aspect of demand homogeneity (8, 9).
- Government actions imply among other things the legal aspects of demand, like regulations, technical standards etc. It also includes the existence of more traditional trade barriers (tariffs, quotas, investment restrictions etc.), (8).
- Firm activities in global markets include the degree to which key players in the industry are expected to enter new markets and/or enter into cooperative ventures etc (5, 7).
- Technological environment refers to the dynamic factor alluded to above where borderlines between industries are being faded out, with great implications on the competitive climate of the concerned industries (11).
- Infrastructure implies in the present context the extent to which this factor will facilitate international involvement of firms - for example fax, transport etc. (8).
- Finally the development of the customer (or distribution channel) structure may have a considerable impact on the power relations in the industry (Porter, 1980). Changes in this factor will therefore be accounted for.

Preparedness for internationalisation

This dimension may be operationalised in a multitude of manners. In the present study the following factors have been used (the numbers in parentheses indicate the corresponding question in the questionnaire, appendix 1):

- International involvement of the firm, as a proxy of international organisational culture (2).
- Direct access to and number of contact with key customers/end users in foreign markets, as a proxy of the relationship with customers in the market, giving management a market oriented and international focus (Håkanson et al, 1982; Kohli and Jaworski, 1990) (13).
- Market share in reference market, indicating the position of the firm in the industry (3).

- Configuration of the firm's international distribution network (both geographic and formal - agents, distributors, sales offices, licences, manufacturing units etc), indicating its geographic reach and way of operation - as proxies for "maturation in its internationalization process" (Loustarinen and Welch, 1988, p. 41) - as well as its ability to promote new products and retaliate against competitive attack through existing networks (2).

One of the factors, type of operational method, presuppose a gradual shift from traditional exporting, through exporting through sales subsidiaries and licensing to the more "sophisticated" entry modes of foreign direct investments etc. Even though this may be the predominant route to increased dependence on international operations, we have decided to include this factor because some companies may deviate in the sequencing (see for instance Welch and Luostarinen, 1988; Björkman and Eklund, 1991).

In addition to the personal interviews with management, a comprehensive questionnaire was included comprising a range of statements on a Likert scale on attitudes and experience directed to the top management and selected board members (see appendix 3). The intention was not here to statistically analyse this set of data. Rather, the main purpose of this exercise was to identify critical factors in the culture of the company with regard to internationalisation, as an important input to the analysis of preparedness for internationalisation of the individual firm. This analysis was carried out in 18 of the 22 companies.

4.4.2 Dependent Variable - Strategic Content

Classifying strategic content is a complex task where the result depends to a large extent on the ability of the researcher to capture the correct dimensions. The possibility of measuring the "wrong thing" is imminent. This section will describe how this dimension has been operationalised and discuss the limitations to the construct and how the research has tried to amend the weaknesses.

There is a long range of different strategic factors being captured by the model described in chapter three: market reach, product scope, entry mode, expansion/concentration, competitive retaliation, economies of scale and scope. These may be classified in three distinct dimensions:

1. Product/market portfolio (Ansoff, 1957; Porter, 1986),

2. Entry strategies (Agarwal and Ramaswami, 1992; Aharoni, 1966; Casson, 1985; Chu and Anderson, 1992; Contractor and Lorange, 1988; Dunning, 1979, 1988; Eramilli and Rao, 1993 and 1990; Newbold et al, 1979; Olson, 1975; Ohmae 1985, 1989; Hamill and El-Hajjar, 1990),

3. Competitive positioning/ability to retaliate (Bartlett and Ghoshal, 1989; Hamel and Prahalad, 1985; Hedlund, 1986; Ohmae, 1985; Porter, 1986).

Two different constructs have been used to capture the essence of strategic orientation of the sample firms: one to be used in 1989/90 during the first encounter with the company mangement; and another one to be used three years after, taking into account the conclusions from the first encounter.

The 1989/90 construct

Using the model as a starting point for the strategy classification the author started out with the construct shown in table 4.4.

Table 4.4: Strategic Content - Semantic Differential Pairs

Please indicate the strategies that your company will pursue the next three to five years, by checking the most suitable alternative below. If you don't have any opinion, please erase the pertinent line.

We expand aggressively in new geographic markets	We will concentrate on our existing markets
We seek actively new business areas	We will concentrate on our existing business areas
Our investments in productive capacity will mainly be carried out abroad	Our investments in productive capacity will mainly be carried out in Norway
We will primarliy invest i green field plants	Our expansion will take place through acquisitions mainly
We want to have 100% control in our foreign investments abroad	We are satisfied with minority investments positions in our
It's our policy not to cooperate with any other Norwegian company in our international operations	We want to cooperate extensively with Norwegian companies in our international operations
It's our policy not to cooperate with any other foreign company in our in our international operations	We want to cooperate extensively with foreign companies international operations

Table 4.4 continued..

We view our market expansion abroad with great degree of urgency	We don't have any need to rush into new markets
Our products have a generic character in international markets	Our products cover a narrow niche in international markets
Our ownership structure is not expected to change the next couple of years	We will actively seek new owner(s)/ investors in the near future

The construct is based on 1-5 semantic differential scale. It is important to note that not all the "pairs" are relevant for all the sample companies. Also, the author will not recur to statistical analyses, but rather try and classify the main components of the case companies' strategies.

The 1993 questionnaire

In the follow-up round in 1993 a more extensive list of strategic alternatives was used, drawing on the experience accumulated since the first approach, both through the interviews and the analysis of the information. It was also decided to use a 1-5 Likert scale to capture the strategic orientations of the firms the last three years. In the present study, the questionnaire (appendix 2) is used in a qualitative manner, the accent being placed on statements scoring "Entirely" and "Partly agree". In addition to rating the strategy statements on a Likert scale, the respondents were asked to indicate the four most important strategy statements for their companies. Table 4.5 reproduces the statements used and makes reference to the windows in the "Nine strategic windows"-model that agreement to the statements is meant to represent.

Table 4.5: Strategy Statements and Window Reference

Statement	*Window reference (see section 3.2)* 1	2	3	4	5	6	7	8	9
a. We have consolidated our position within our existing customer base in Norway	x			x					
b. We have gradually expanded our customer base in Norway	x			x					
c. We have very rapidly expanded our customer base in Norway	x			x					
d. We have established a presence in *selected* markets with a view to *gradually* develop sales to well defined customer segments.		x							

Table 4.5 continued

e. We have developed a presence in *many key markets* in order to *rapidly* gain a position relative to our competitors					x			x	
f. We have in particular furthered our relations with our existing customers and representatives abroad				x	x				
g. Focus has been on a critical review of our customer and product portfolio in key markets	x	x		x	x				
h. We have actively sought one major partner (abroad or in Norway) with a view to strengthen our capital base			x			x			
i. We have actively sought one major partner (abroad or in Norway) who can contribute substantially to our marketing efforts world wide			x			x			
j. We have expanded in Europe in order to position ourselves for the Single Market					x			x	
k. We have developed a powerful distribution network in key markets				(x)	x			x	
l. We have developed our marketing organisation at our head quarters in order to better be able to service international markets					x	x		x	x
m. We have established long term and close relations with a selected number of foreign customers in new markets		x							
n. We have sought to strengthen our control with market activities in the individual export markets								x	x
o. We have invested a lot in developing new products within our traditional business areas							x	x	x
p. We have actively acquired other companies in our industry to strengthen our international market position								x	x
q. We have actively sought to establish a position in markets where our main competitors are strong					(x)	x		x	x
r. We have actively sought to develop new customer segments for our established technology							x		(x)
s. We have actively sought to develop new products in unrelated technologies							x		(x)
t. We have established and furthered an active market information system in order to capture signals about competition and market condistions in key marekets									x
u. Possible reactions from competitors in other countries have played a signficant role when developing our international marketing strategies					(x)	x		x	x
w. We have entered into licensing agreements in order to rapidly cover market areas not being served by us.			x						

All these factors translate in one way or another the strategic content as being described in the model. For instance, if a company has expanded rapidly in many markets (e) in countries where their competitors are strong (q), through acquisitions (p) along with a strengthening of the marketing function at the company head quarters (l), the company exhibits a strategic orientation somewhere between "(Consider) expansion in international markets" and "Prepare for globalisation". If they *in addition* are actively seeking partners (h or i), the company reveals a preference for "Seek(ing) global alliances". If the company, on the other hand, is reviewing their customer base (g), and through a stepwise approach are building relations to customers (d and f) in new markets through a systematic search for market opportunities (y), one may classify the company as being "located" somewhere between "(Consider) expansion in international markets" and "Consolidate your position in export markets". Adding the emphasis on consolidation in the home market (a) and product development in traditional product areas (o) would lead the company more toward the "Consolidate your position" window.

The point is here that two strategic thrusts that appear to be very similar may be interpreted differently and may also reflect company response to different forces. The general expansion in the first example mentioned above may take place because the company has unused capacity, or it may be initiated because of distinct market opportunities in the particular market. Therefore a question on the export motives (question 6 in questionnaire 2 - see appendix) has been included. When in doubt, the analysis has been supplemented with a probing with the interviewee in order to identify the real forces lying behind the strategic move. Only in this way it is possible to make a classification which complies with the intention of the "Nine strategic windows".

4.5 Data Collection

The main part of the data collection has been carried out through personal interviews with the case companies. These interviews have been conducted in two phases:

1. In a first phase the companies' position in the model was assessed and a strategy for each company was suggested based on the advice given in the model. This phase was carried out in 1989-90.

For this phase the data collection was conducted in at least two turns:

a. An introductory interview, where the author went through questionnaire 1 (see appendix)together with the top management. In most cases this included the general manager. In some instances[8] only the marketing manager was involved in the interview. In some of the cases, the general manager was supplemented by the marketing manager and/or the financial manager. The questionnaire is lengthy and comprehensive and was therefore used rather as an interview guide. In general, the interview lasted between two and three hours. Although the questionnaires are fairly rigid in their structure, the interviews took the character of discussions with feedbacks and clarifications rather than an impersonal filling in of an anonymous form. The information from this interview was entered into our model, and the results were presented to the company management in the form of a 15-20 page protocol.

b. The protocol was thereafter presented to and discussed with the management in a follow-up interview where possible errors would be corrected. During this discussion the results of the analysis and the ensuing strategic recommendations were compared with the strategies that the firm had developed on their own. These discussions would last another two to three hours.

2. The second phase was carried out three-four years later, 1993. The purpose of this second round was to assess the major strategic thrust of the case companies since the first encounter, and compare it with the advice given three-four years earlier. This was mainly ascertained through a

---

[8] The three construction companies (F, G, H) and D and I of the construction industry, and company A in the ship equipment industry.

questionnaire ("The 1993 questionnaire" - appendix 2), coupled with secondary data (annual reports, newspaper clippings, etc) and telephone interviews with representatives of the top management of the case companies, in most cases the general manager. In some instances the respondents from the first round had been replaced by new managers. In this second round answers were obtained from all but one company (J in the ship equipment sector).

The interviews with the case companies have been supplemented in different ways:

- Daily reading of trade journals and international newspapers (like the Financial Times) with a view to capture general development trends in international trade and finance. This is particularly useful at the political level, but also within different industries where there are journal and newspaper reports of importance for the analysis. Other secondary sources of interest have been statistics from the OECD, IMF, GATT etc. supplying the author with macro figures.

- The interviews were also supplemented with secondary data like articles in the trade press on the individual firms, annual reports, industry directories (like Kompass), etc. Even though information from the latter is helpful to for instance identify competitors, it is still limited in use because of very low precision level. In some instances the author has been offered the possibility to make searches in the files (budgets, market reports etc.) of the individual companies.

Figure 4.2 gives a picture of how the research process was carried out.

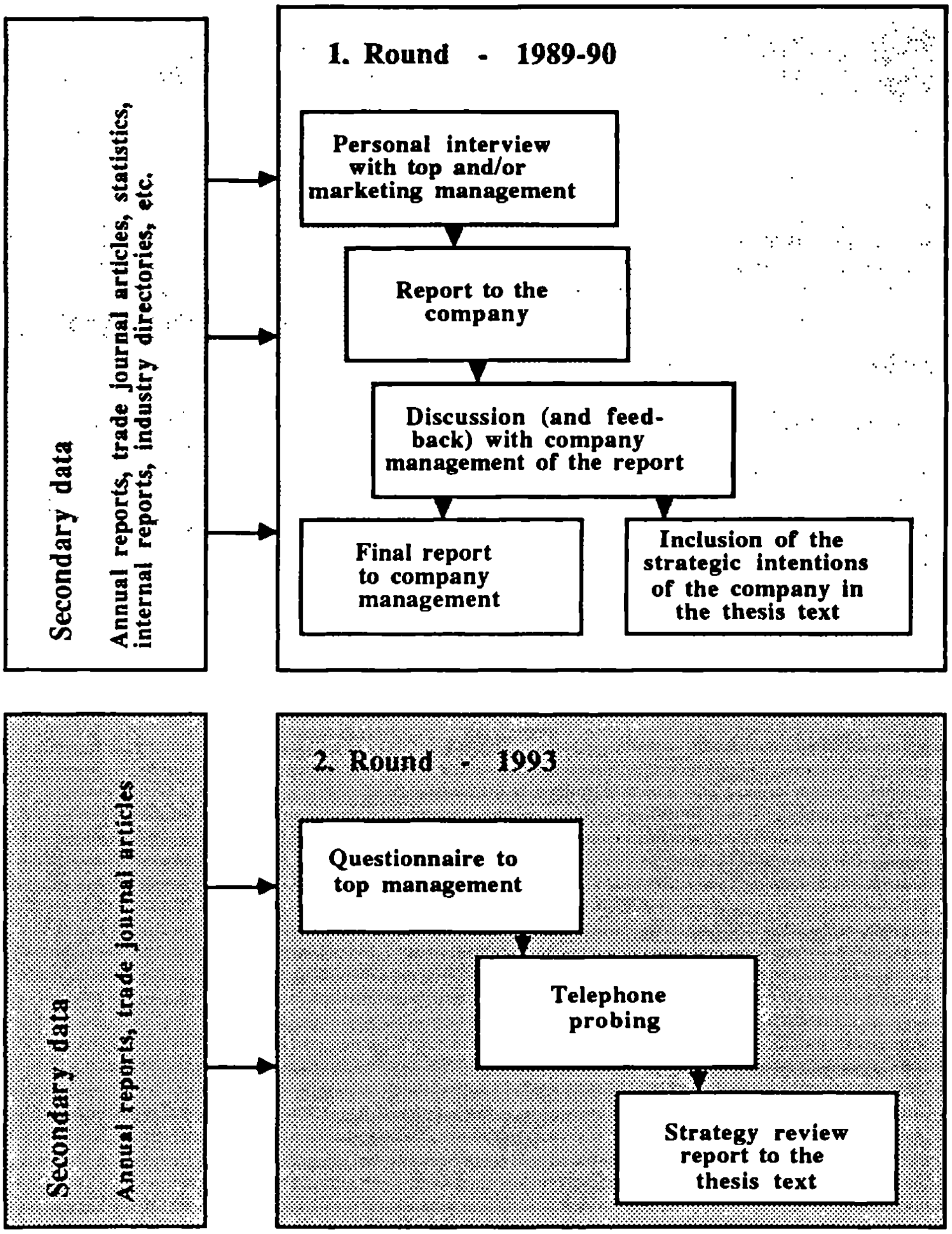

Figure 4.2: Research Process of the Study

4.5 Research Quality

Research quality is sought assured as shown in table 4.6.

Table 4.6: Research Quality

Test	*Purpose*	*Phase in project*	*Solution*
Concept validity	Ensure that what you measure is really what you want to measure;	Interview guide Data collection Operationalisation	Several sources Several interviews Discussion of results with respondent
Internal validity	Establish causality	Data analysis	Pattern matching Discussion with respondent
External validity	Transfer results to theory	Data collection Research design	Carry out several case-studies
Reliability	Obtain same result with same research design	Data collection	Case study protocol Feed back for and discussion with respondent

Based on Yin, 1989

The concept validity - that of industry globality, preparedness for internationalisation and strategic content - is particularly critical in this study. Some of these concepts may be loaded and ambiguous, and there is of course a question of the correctness of the interpretation. In particular, attention is drawn to the ambiguity of the definition of reference market. This is a focal concept in the framework and the companies' postitioning in the framework will stand or fall on how this concept is perceived. The concept as such is not being used in the questionnaire, only indirectly the author has attempted to define the concept for each company through assessing the competitive structure and the market accessibility (the extent to which the markets are isolated from international competition). This definition has a bearing on two factors in our framework:

- The market shares of the company
- The industry globality.

An incorrect positioning of the company in the model will have dramatic consequences for the dependent variable (the strategy recommendation); clarity in the concept and its operationalisation is therefore of utmost importance. Through feedback and discussion with the individual respondents the author has tried to weed out possible misunderstandings occurred during the first interview. It is therefore believed that the results presented in this thesis give a realistic picture of the situation.

Turning now to the internal validity, this is being sought ensured through pattern matching, which basically consists of comparing the outcome of the analysis with the advanced propositions. The degree of accordance between outcome and propositions enhance the internal validity (Yin, 1989, p. 109). This is especially true when there are several dependent variables (like the "Nine strategic windows"), and when the outcome of each of these variables is in compliance with the propositions. A critical question in this context is the fact that the model have a normative focus. This implies that the outcomes that are "prescribed" by our propositions will not necessarily be those that are found, simply because the companies do not do the "right things". This dilemma has been sought solved in three ways:

- A level of financial performance is defined, and degree of success is tested against degree of compliance with the model,
- Success relative to the average of the sample companies is defined in terms of export growth and share.
- Independence from owner (companies) as a measure of success is also defined.

Using the first method entails a long discussion of how to define success, a word which seriously complicates the discussion, because its meaning will of course vary according to the goals and objectives of the individual firm. The following financial measures have been used in the evaluation - financially weak, medium financial strength and financially strong:

- Financially weak is defined as poor equity ratio with considerable exposure for both owners and lenders. Companies with an equity ratio of less than 10-15% coupled with marginal or negative return on sales the last couple of years would typically "qualify" for this category.

- Medium financial strength implies an established capital structure with a equity ratio of 15-30%, and a return on sales that has "frozen" to a fixed pattern at 2-5%.

- A financially strong company has an equity ratio of 30% or more and return on sales of 5-6% or more, or steadily increasing over time. Return on equity should at least be in the order of 15-20%.

These measures should be generally acceptable, but the interpretation of them may still be questionable because of a complex causality between profitability and the factors causing it. The occurrence of a slump in the market for instance over a two year period will certainly affect the financial results and status of a company, even if the market strategy is "in general" sound. The financial test is being supplemented by the two other measures, independence and relative export performance. Whereas the latter one is defined as a relative benchmarking measure, the former one is defined as operational and strategic independence from any owner and ability to develop strategies without receiving financial or other support from a mother company.

Regarding the external validity, the critique advanced against case studies is according to Yin (1989) irrelevant because the case method is compared with survey method in which a random sample is an important precondition for statistical generalisations. In case studies the researcher conducts an *analytical generalisation* where the results are generalised according to a theory. Such generalisation is, however, not "automatic"; the theory should be tested through repeated case studies where the theory specifies the expectation of the same results. This is one major reason for presenting the relatively great number of cases in the present study.

The reliability is sought ensured through several interviews and feedback rounds with the individual respondent. Through individual company reports (the protocols), together with the questionnaires the author has sought to satisfy the requirements to documentation.

Chapter Five
Analysis of Company Strategies in the Ship Equipment Industry

Chapter Five
Analysis of Company Strategies in the Ship Equipment Industry

The analysis of the strategies carried out by the sample companies is the basis for the testing of the propositions put forward in chapter four. The present chapter will analyse the case firms in the ship equipment industry. It is organised in three sections as follows:

1. The "Industry Analysis" gives a general description of the industry with emphasis on the factors impacting on its degree of globality.
2. Then follows a section, "Strategic Responses by the Industry Players", analysing each sample company with regard to the "Nine strategic windows" as of 1990, comparing the recommendations given by the model with the strategic intentions as stated by the top managers of the sample companies at the time (1990).
3. A third section, "Strategy Review", resumes the thread three/four years later confronting the strategies effectively carried out with the recommendations suggested by the model.

A description of the procedure to locate the case firms in the model is given in appendix 4.

5.1 Industry Analysis

This section describes the general market environment of the ship equipment industry common to all the companies in the sample. The chapter starts with an assessment of key features of the market development, and endeavours to give a general assessment of the ship equipment industry along the globality scale in the strategic windows. It discusses the market development, market accessibility, globality of the industry structure and projections for the next couple of years.

The ship equipment market is related to the ship building activities in the world. There are three particular features of interest of this ship building market.

1. The development in the fifteen year period between 1975 and 1989 was unambigously negative for the shipping and related industries. From 1975 to 1988 the yard deliveries sank from more than 35 million to 10 million gross tons[9]. Even though several countries during this period of time have considerably downsized their productive capacity (Sweden, Japan), the ship building industry in most western countries has been kept artificially alive thanks to governmental subsidies. Support in the order of 20-25% of the contract price has been the rule rather than the exception. These subventions are now being scrutinised by both EU and the US, and are expected to be gradually scaled down - at least in the West.

In the course of 1989 and 1990 the ship building activities have been revitalised. It is expected that new security rules, scrapping of old vessels and need for additional tonnage will lead to a doubling of the volume in the first half of the 1990's. The actual slump in the world market may defer somewhat this increase. However, there seems to be a fundamental need for newbuildings during the nineties. This is expected to give a new boost to yards in West Europe.

2. Two thirds of the ship building of the world is located in Japan and South Korea. Among other ship building nations like Taiwan, Denmark, Romania, Poland, Croatia (former Yugoslavia), Germany, etc. there is no one exceeding a market share of 4%. There is reason to give a special mention to South Korea which in the early eighties played a relatively limited role in this market, but which passed Japan late in the same decade. Aggressive pricing policies, based on low labour cost have made South Korea one of the world leaders in this industry. Its ship building activities and competitive position have, however, been somewhat hampered by labour disputes. In 1987 alone there were more than 300 disputes in South Korea, most of which occurred in the ship building industry.

3. According to Lloyds, four categories of ships constitute about 90% of newbuildings (in terms of gross tons, 1988):

---

9 Lloyds Register, 1988

General cargo	31.0%	Fishing vessels	3.6%
Oil tankers	20.4%	Combi vessels	1.9%
Bulk carriers	20.1%	Others	5.5%
LPG carriers	17.4%		

Some of the equipment manufacturers have concentrated their activities in special segments of the market, for instance gas carriers, fishing vessels, offshore supply ships etc.

In the following, the two factors, market accessibility and globality of the ship equipment industry, are being described in general terms. In this context it is worth while noting that this analysis, and particularly that of the globality of the industry, has to be carried out specifically for the individual product in order to give indications on the placement of each firm in the grid. The analysis below gives a general insight in selected segments of the ship equipment industry.

5.1.1 Market Accessibility

The market accessibility depends on the amount of barriers impeding trade and market access of foreign vendors. The general impression from the interviews in the industry is that there are few formal barriers hindering exports of ship equipment. Neither customs, nor certification (often carried out by private firms like Lloyds, Veritas etc.), nor adaptation to local standards constitute any serious cause of problems to Norwegian ship equipment exporters. Even though there are some differences in preferences between countries with regard to product features, this factor does not seem to have any major influence on the cost competitiveness (increased cost of adaptation) of Norwegian equipment manufacturers.

However, a paramount feature of the ship building market is the strong ties that exist between yard and shipowner in many countries. According to statistics[10], Japanese, German and Spanish shipowners have all their ships

[10] Source: Grieg Data, 1989

built in their home country. This nationalistic orientation contribute to a great extent to cement a structure of the ship building industry which otherwise would have been more global. The Norwegian exporters of ship equipment experience in this context nationalistic purchasing behaviour within the different yards; German yards buy German, Japanese buy Japanese, etc. In Spain the government has introduced requirements of local content for supplies to Spanish yards. In a separate study on purchasing behaviour in Japanese and South Korean ship yards, it has been concluded that, in the case of Japan, protectionism and nationalism are not necesserily as prevalent as one could suspect; rather the Japanese complain about foreign suppliers' inability to adapt to Japanese requirements with regard to punctuality of delivery and specifications (Takvam and Tysvær, 1991). It was not shown that these requirements are getting more rigid when foreign suppliers enter the competition. However, it has been demonstrated (Kverneland, 1988) how cooperation between Japanese subcontractors and their customers has practically been developing into a closely knitted web of relations which is particularly difficult to break into. This may not be termed protectionism as such; rather it reflects tradition and strong ties of loyalty between partners. As long as price/performance is basically the same, it will take a lot before Japanese ship yards will switch suppliers. And vice versa: if foreign deliveries are being delayed or if there are inaccuracies in the specifications or in the documents, the Japanese will rapidly turn to their local suppliers again. Kobe Heavy Industries assert in an interview with Takvam and Tysvær (1991):

> "Only thirty percent of foreign suppliers respect the contracts being entered into. The West Europeans promise, but seldom they feel any firm commitment to their promises. Also the internal quality control of products is poor, compared to the Japanese. The yard evaluates Japanese products as having a higher quality than foreign products. Japanese suppliers are also more flexible than the Europeans. Further more, on request it is much easier to suggest changes in the specifications with Japanese suppliers than with Europen ones."

The situation in South Korea is somewhat different. This country has only a limited number of suppliers in this particular industry, and the authorities have a clearly pronounced intention of building its own industry in this field, by means of protecting their home market. Protectionsim is particularly prevalent in product areas already covered by domestic firms, and is expected to be extended to encompass new areas as well. Protectionism in South Korea takes the form of infant industry subsidies, export promotion programmes, local content requirements, etc.

Also in Europe there are strong indications of nationalistic purchasing practices. This is the case in countries like Spain (with its local content requirements), but also in Germany, France Finland and Norway (!). It varies with product groups, following closely a pattern of industry structure in the countries concerned. Within certain product areas there are local suppliers in many countries (for instance winches, diesel engines) whereas in other areas (certain electronic items such as auto pilots, control systems) only a few international players rule the ground. In the first case the loyalty benefits the local supplier(s), whereas in the latter case there is a tendency of a more open international competition, especially in third countries (without a domestic industry in the relevant product field). However, within telecommunication (including the maritime sector) the EU has introduced local content rules of 50% of the value added supplies from non-members[11].

As a result, many Norwegian subcontractors to the shipping industry are oriented toward the Norwegian shipowners rather than the yards (Norway is number five or six in the world in terms of tonnage). Norwegian shipowners have long been the mainstay customer of the Norwegian equipment manufacturers, and only in the seventies, in the wake of the crisis in the shipping industry, the manufacturers turned their attention to other countries´ shipowners.

[11] Source: Interview with Cato Halsaa, general manager of ABB Satcom.

5.1.2 Competitive Structure

Figure 5.1 gives a count of the competitive structure in different parts of the ship equipment market. This analysis has been drawn from the individual reports from each of the case companies.

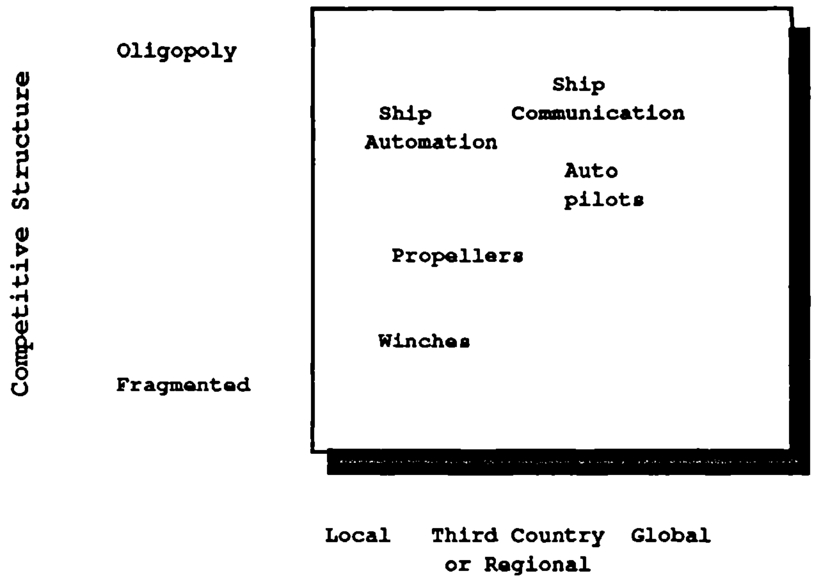

Figure 5.1: Competitive Structure in Selected Ship Equipment Markets

An analysis of the competitive structure within the individual product area gives a more detailed picture. In figures 5.2 and 5.3 below are presented examples of the competitive structure in the ship automation and winch markets. In the ship automation market there is a concentration of some few multinationl concerns (Siemens, AEG, ABB/Strömberg) who have other fields of activity, the maritime sector constituting only a fraction of their sales. A part from these players, there are some small internationally oriented nichers, and some local suppliers. This constellation makes it difficult to penetrate markets where the local supplier has its stronghold (Germany, Denmark, Japan, Norway, Finland). In the winch market, the situation is quite different. In this instance, the market is dominated by mostly local suppliers, only a handful operating at the international level. In many countries there are several manufacturers of winches competing with each other, both locally and internationally (Germany, Norway, Japan etc.)

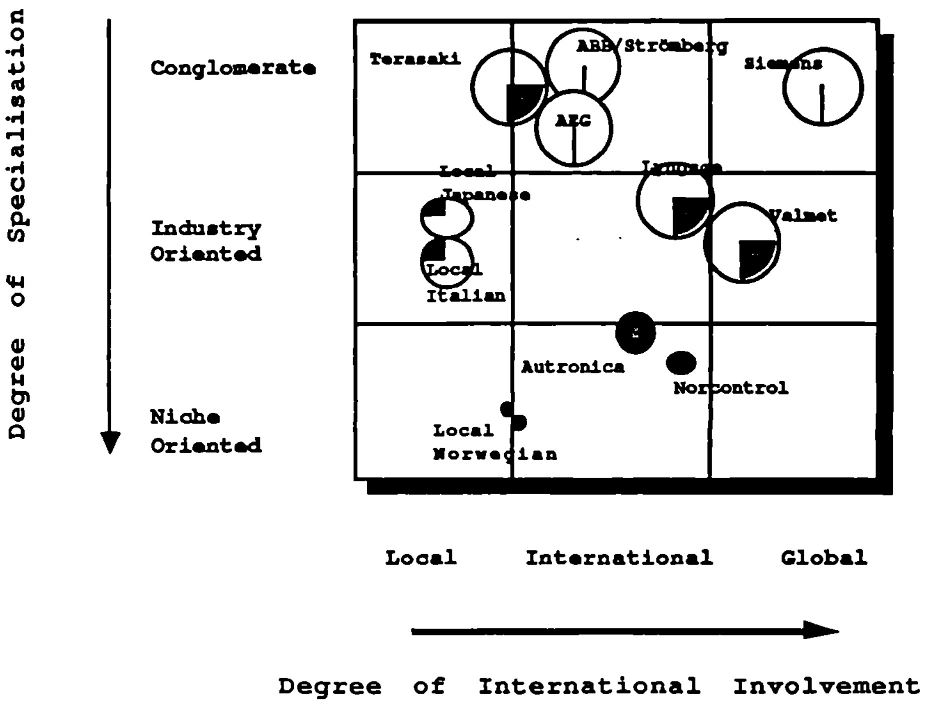

Figure 5.2:Competitive Structure in the Ship Automation Market

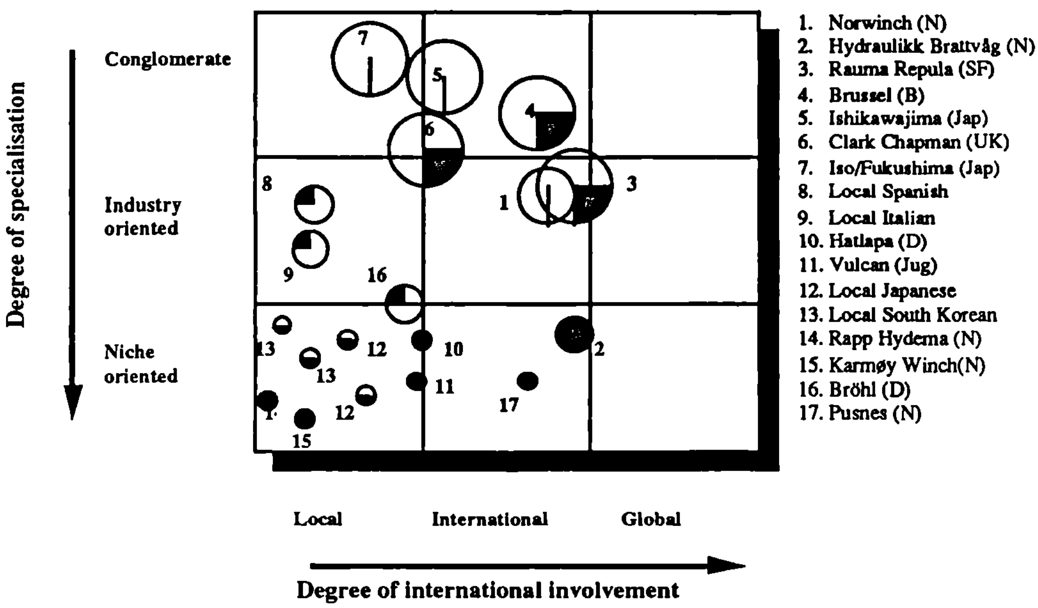

Figure 5.3: Competitive Structure in the Winch Market

5.1.3 Development of the Industry Globality

We have briefly analysed how market barriers and competitive structure affect the industry globality within different fields of the ship equipment industry. There are few indications that fundamental changes will take place within this particular industry in the period 1990-95. The EU Commission has made it her aim to reduce the level of subsidies during the nineties. Also within the OECD area, the governments negotiate means to reduce the state subsidies to the ship yard industry. There are many obstacles in this process, one being the different ways in which the subsidies are given. An agreement on this issue will eventually lead to a restructuring of the business in fewer and larger entities. The effects of such changes on the *equipment* industry have not been analysed. The progress of this work has so far been rather meagre.

The market actors themselves may play a decisive role in the globalisation of the equipment industry. The extent to which foreign suppliers adapt 100% to for instance Japanese requirements, and take the time necessary to build relations and confidence in the market, the players will gradually move the industry structure in a more global direction. The propeller and ship automation markets are perhaps particularly exposed:

Within the ship automation industry many players seek strategic alliances. This is the case for Norwegian manufacturers (Autronica and Norcontrol) and two other Scandinavian manufacturers (Valmet of Finland and Søren T. Lyngsøe of Denmark). However, the large Japanese supplier, Terasaki (35-40% of the world market) has not yet moved outside the Far East. One may speculate that the Terasaki management be lured by the increased activity in the ship building industry in Europe. Such a move will dramatically contribute to a more global structure of the ship automation business, and should lead European companies to seek a better foothold in the Far East.

Correspondingly, a change in the strategic orientation toward Western Europe of two large Japanese manufacturers of propellers (Nokushima and Niigata) could materially alter the competitive arena in the propeller industry.

5.2 Strategic Responses of the Industry Players

This section reports on the position of the case companies in the model and discusses the ensuing strategy recommendation with the strategic intent as expressed by top management in 1990. It is organised by the four strategic groups as these have been identified in figure 5.4.

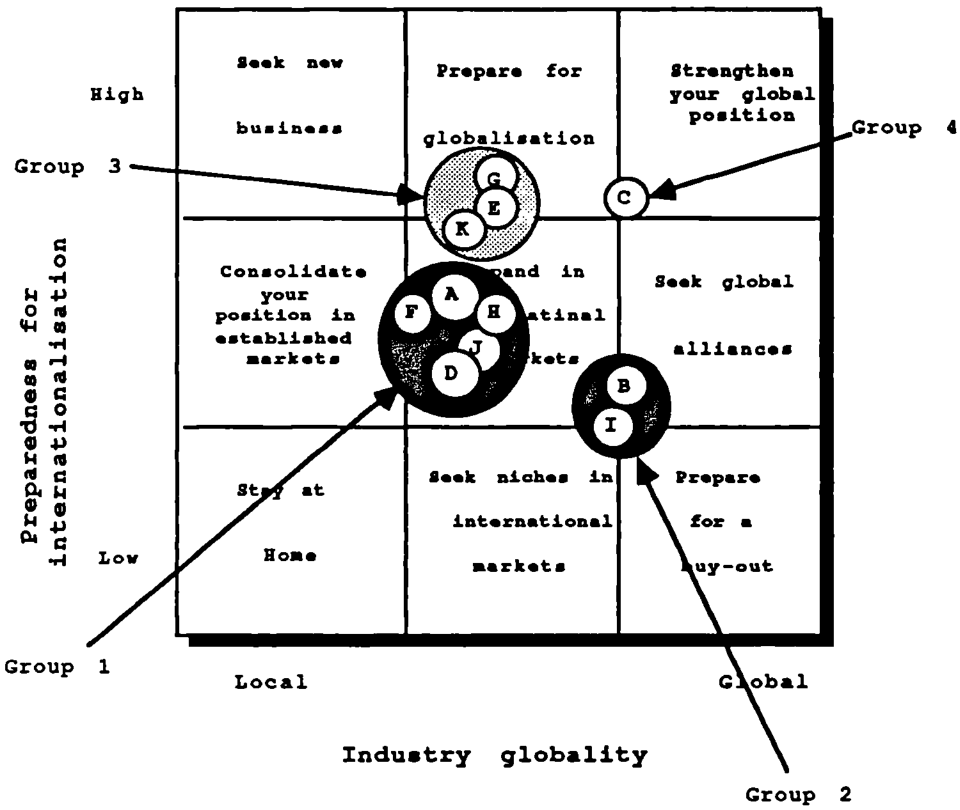

Figure 5.4: Strategic Position of Selected Norwegian Suppliers in the Ship Equipment Industry

Group 1

Recommended Strategies

In this group we find companies A, D, F, J, H. These are all involved in heavy mechanical engineering products (deck gear, diesel engines, propellers). A key feature is that the companies in this group operate in industries that have not reached far in the globalisation process, perhaps with the exception of company H. Further more, the companies in this group exhibit "medium preparedness" for internationalisation. The main strategic focus of these companies should therefore be as follows:

1. Consolidate existing markets

Globalisation trends will hardly constitute a threat in the near future. This is true regarding both the competitive structure and the market access. Therefore, most of the firms may continue their activities on a "business as usual"-basis the next couple of years without risking to expose themselves to changes in the competitive climate. As is shown in figure 5.4, three of the firms are indeed close to the "Consolidate your position in established markets" cell of the grid. The recommendation is therefore to nurture the relations to existing customers and distribution network, through proactive support and collaboration. Indeed, many of the firms in this group have not established such rapport to foreign ship yards and shipowners. International sales take place mostly through bids, apparently without any possiblity for the suppliers to create preferences to other factors than price. We believe that this can be dealt with through emphasis on a more customer oriented philosophy thereby strengthening the ties between yard-shipowner and subcontractor. Yet, there are exceptions to the rule: this is particularly true to company F who has established close ties in selected markets and operates as a "quasi monopolist" in its niche.

2. Expand in new markets

The companies in question are regarded as being sufficiently strong to start expanding in new markets. All of them have long international experience as a solid foundation on which to base a further international involvement. They also typically expose relatively high market shares in selected niches. International expansion may involve both further penetration in existing markets and entering into new ones.

The overall purpose of such a strategic move should be to secure market positions in a somewhat longer term perspective, where competitors from other countries may start to go international and pose a threat in the firms´

established markets. The Japanese in particular may have long term strategic intentions in Europe. In the event of a more offensive international stance taken by competitors it is particularly important to have a firm foothold in key markets. Indeed, one of the firms in the sample has established a bridgehead to the Spanish market in close collaboration with a local partner. Other companies should follow suit (in Spain or other markets).

3. Develop an international market intelligence system

Even though the competitive structure in this group of companies still cannot be termed "global", all the companies find themselves in the "Potentially global" window. As a consequence, changes in the competitive and/or market situation may result in a new market environment warranting strategic reorientations of the firms. In this context, it strikes the author that very few of the firms have developed any solid insight into their competitors´ position and intentions in international markets (more than a good knowledge about their products). It is believed that it is paramount for the firms´ future competitiveness that they as soon as possible establish routines to systematically gather international market intelligence, with a particular emphasis on competitors.

Firms´ Strategies vs the Recommendations of the Model

The firms in group 1 have a relatively active stance toward international sales and participate selectively in international bids in several countries. Many of them are quite advanced with regard to product development and claim to be among the *primus inter pares* in their fields when it comes to functionality and applicability of their products. Many of the firms confront declining demand in their traditional market, the fishing sector in Norway. This is the main reason why they seek to further increase their presence in international markets. Apparently, therefore, their strategies seem well adapted to the recommendations given in the framework ("Expand in international markets"). However, the immediate reason given is quite another one: growth in the shipping sector with increased activity in the ship yards, and a shortfall in fishing and partly also the offshore industry. Industry globality has not been part of the assessment made by management. These factors make the verification of the recommendation of the model more intricate.

The recommendation to strengthen customer and network relations to preempt possible globalisation trends, has only been shown in one case (company F). Company F has developed a typical niche strategy in selected markets and seek to cement this position through building close ties with customers and distributors. Even though this is not the focus of the strategic choices of companies in this part of the grid, it still remains a prerequisite for further expansion in foreign markets.

The two companies with positive developments with regard to sales and results, companies J and H, do not exhibit any distinctively different pattern concerning market strategy as defined by the grid. Both have been acquired by large concerns in the 1980's and have as such been provided with financial ressources in a transition period. Company D - also member of a concern - and company A and partly company F (both family owned) have by the end of the 1980's been confronted with low ROI and negative development of the equity.

Company A has since the 1960's an indirect involvement in Japan, through a licensing agreement with a local manufacturer. The latter has an estimated share of 25-30% of the Japanese market, without company A having any influence on the marketing strategies of the licensee, nor the right to enter the market on its own. This situation is increasingly felt as a frustration. However, as long as the industry is located at the potentially global stage in the "Nine strategic windows" (and there are few signs of the industry to move dramatically to the right in the grid), company A will not have to fear a situation of Japanese entry in Europe, without any possibility of its own to retaliate in Japan.

Group 2

Recommended Strategies

This group consists of two companies (B and I), both in the electronic industry. The industry globality of these companies is assessed to be in the

"Potentially global" part of the grid, perhaps moving toward the global end. This implies that market accessibility is relatively open and that the competitive structure is relatively global. At the same time, the companies have a preperadeness to globalise deemed to be sligthly below "medium", basically because of low market shares in international markets. The companies have been placed in the intersection between different windows. As a consequence, the companies can opt to go for different strategies, depending on specific factors within the companies (eg. international ambitions in management, financial strength etc.). The recommendations built in the model are as follows:

1. Expand in new markets.

A change in the competitive structure, through extensive strategic alliances between important players in the market place, or through a more open market access as a result of eases in regulations (eg. EC92) may lead these firms in a more global market structure. It is therefore important to identify key markets in order to develop a firm foothold with a number of central customers in the market. Without such a stance, the companies risk to lag behind its (larger) international competitors, gradually loosing market position and competitive stamina.

A factor strongly contributing to the urgence of an offensive strategy is the fact that in a global market (as opposed to a potentially global market) other "competitive weapons" or marketing mix elements will rule the field. Price and place will often "make it or break it", not necesserily because other factors like product quality and service are less important, but because the largest, multinational competitors generally are able to offer precisely that: quality and service at a competitive price. The main reason lies in their capabilities in low cost, large scale production, but also their extensive market network, enabling them to turn over the necessary volumes to achieve scale advantages. Therefore, the companies in this group have to develop new markets and networks in these markets enabling them to achieve threshold volumes in manufacturing and research and development. The way in which this network and market expansion is carried out depends largely on the firm´s management competence and financial resources.

2. Seek niches in international markets.

The companies in this window are too weak to expand rapidly as suggested in the previous paragraph. At the same time they risk to be swept out of the market by multinationals actively seeking global strategies. This implies that the companies - having limited resources - should seek niches in international markets where the investments in international networks are more compatible with their resources. In this context, seeking niches entails setting up barriers to entry preventing the multinationals to take an interest. The challenge seems to be to identify a set of potential (and existing) customers which have sufficiently pronounced special requirements to allow the companies to distinguish themselves from their larger competitors. As a consequence the real challenge is to make the companies more market oriented, so as to come to grips with their customer base and establish and nurture long term relations with these. In this way the firms would enhance their ability to identify niches.

3. Seek international alliances.

A possible strategy for both companies is to seek international partners for strategic alliances. They feature a certain degree of international corporate culture and are therefore capable of entering complicated negotiations on strategic alliances. Alliances may be the strategic alternative yielding best results through enhancing the capabilities of the companies to capitalise on existing network of the partner, thereby allowing a more rational manufacturing and R&D process.

4. Prepare for a buy out.

Firm I is in a position where preparation for a buy out is a relevant alternative. The company has undergone a period of financial strain, and therefore lacks the power to defend its interests in an international strategic alliance.

The companies in group 2 have widely different financial strengths. Company I is most exposed and should increase its capital base, in order to be able to pursue the more proactive market strategies recommended by the model (1-3 above). Company B is well placed financially to actively enhance its market presence, for instance through market based alliances.

Firms' Strategies vs the Recommendations of the Model

One of the companies (B) has entered into a market and financial alliance with a large multinational concern and in this way gained access to the network of its partner's marketing network. The other company (I) has initated discussions to enter into an alliance with another Norwegian manufacturer in the same industry, aiming at dividing the market with a view to achieve economies of scale. Company I has also recently been taken over by another Norwegian company with related technology (but targeting different kinds of customers). A typical feature of company I is a relatively lean management team, where the general manager seems to be the only one involved in the kind of strategic issues discussed here.

Group 3

Recommended Strategies

This group consists of three companies (E, G and K) which are positioned in the borderline beween "Expand in international markets" and "Prepare for globalisation". The companies manufacture respectively valves, autopilots and electrical fixtures. A common denominator is that they all operate in markets with relatively few and large internationally oriented actors. Two of the companies have relatively high market shares - in some markets they are market leaders within their niches, whereas the third one (K) holds the position as number three or four in its export markets. All three firms have a relatively well developed international corporate culture.

1. Expand in new markets

This strategy implies for the companies that they must get a better foothold in larger parts of their markets and/or enter new markets in order to be better equipped to encounter potential changes in the competitive arena (eg. competitors merging or entering into alliances). This is particularly true for company K which as number three-four in most export markets does not seem to be sufficiently strong to withstand such a development.

The companies E and G are in this context better off in that they dominate their niches in key markets. Company E is placed somewhat lower in the grid because they have not yet a firm foothold in one key market, Japan, which is dominated by local Japanese suppliers. G does not have any activities in Japan either, but for their particular products, the market in Japan is insignificant.

2. Prepare for globalisation

Such a strategy will contain different elements depending on factors specific to each firm. G will have to build shares - most probably through acquisitions - in markets in Europe where they still are vulnerable to actions from local competitors. Company E should rather seek a local alliance partner in Japan in order to gain better market access. Company K´s strategy should be to penetrate individual markets in Europe. The entry mode depends largely on the competitive situation in each country, or - in other words - to what extent it is possible to gain shares without goading key competitors into retaliation.

Financially all three companies have a sound balance sheet and satisfactory return on sales, possibly with firm K in a unique position. This should give them possibilities to offensively pursue the strategies recommended by the model.

Firms´ Strategies vs the Recommendations of the Model

The strategies of the firms in group 3 are generally in compliance with recommendations of the model.

Company G has developed strategies that aim at securing its position in key markets. These are primarily marketing oriented (like advertising campaigns or strengthening ties with distributors), but contains also elements like acquisition of competitors. So far, this has not been carried out because the candidates for acquisition have not been considered sufficiently interesting.

Company E had not as of 1990 considered any strategic entry into the Japanese market through alliances or any other form of cooperation. Their activities were first and foremost oriented toward individual projects in Japan and a closer connection to the Far East market through active marketing initiatives. Also, company E has decided to enter special niches in the land based valve market (for instance in petrochemical industry and refineries). The main reason for this move is to make itself less vulnerable to changes in a highly volatile shipping industry.

Company K has pursued an active policy of acquisitions in export markets (Sweden, Germany) in order to strengthen its position here. The company has furthermore relatively expansive plans to increase shares in key markets. It is, however, doubtful that the company will end up as a market leader in the more important markets on the Continent.

"Group 4"

Recommended Strategies

Only one company (C) is placed in "group" 4. This is one of the world leaders within maritime satellite communication, and belongs to a multinational concern within electronics, power generation and adjacent fields of activity. Judged by its market position and its collective organisational strength, the company must be considered to have a high preparedness for internationalisation. The industry structure is highly concentrated, but market access is somewhat hampered by national preferences and local content rules.

The company is placed in the borderline between "Prepare for globalisation" and "Strengthen your global position". Both strategies implies a strengthening of the company´s global position, but with emphasis on different elements. Preparing for globalisation represents the urge to develop broader marketing networks in relatively closed markets like Japan and to somewhat lesser extent the US, where established competitors constitute a clear market barrier. In this case the strategy could be to identify local marketing partners, either through subcontracting, assembly or OEM arrangements (OEM=original equipment manufacturer - private brand). Alternatively the company may consider entering these markets through acquisitions in "problem markets" in the Triad. Japan is particularly relevant in this context, because the largest competitor is located here and have expressed plans to increase its activities in the West. The feasibility of this strategy depends on the availability of suitable acquisition candidates. The company is considered to be particularly well equipped to carry out such acquisitions both through financial strength and business culture - if necessary with support from its mother company. It seems to be difficult to build market presence through organic growth, in view of the time it takes to get entrenched in the markets indicated (in Japan it may take up to ten years, Ohmae, 1990), and the expected counteractions from the incumbent companies.

Firm's Strategies vs the Recommendations of the Model

Company C has been hampered with low returns the last couple of years because of later than expected introduction of a new product range. Therefore, much of the management focus has been on how to improve product development processes inside the company rather than how to improve its grip on the market. They have indeed approached - for discussions on cooperation (inconclusive) - a European distributor with a multinational network in maritime electronics operating mainly on an OEM basis. This move translates a wish to control their marketing efforts and may constitute a sign of awareness of the urgence of their strategic position. Entry in Japan has so far not been considered.

5.3 Strategy Review

This section reviews the strategies carried out the last three years by the sample firms in the ship equipment sector. This industry is intimately linked with the fortunes of shipyards. At the end of the 1980's the order backlog of world shipyards had grown by a sturdy 125% over a four year period until the end of 1990. Since then demand for newbuildings has reflected the general mood of the world economy. From a high 73 mill dwt. in July 1990 the order backlog registered in Fairplays database shrunk to around 36 mill dwt in april 1993[12]. The expected upsurge in tonnage

[12] "Newbuildings", Fairplay supplement, April 29, 1993

demand as a result of the requirements on shipowners by IMO (International Maritime Organisation) to build double hull crude and product tankers for security reasons has not yet materialised. Still most observers maintain that this regulation, coupled with the fact the average age of the world fleet of vessels of most categories is too high. Therefore, it is claimed that the shipbuilding activity is deemed to be rather bullish the next five years or so.

The next four sections will review the strategies carried out by the companies represented in the four strategic groups identified in section 5.1.2 and evaluate the degree of compliance of these strategies with the "Nine strategic windows". When describing the strategic choices of the companies, reference is made to letters a-y of question 3.1 in questionnaire 2 (see appendix).

Group 1

This group consists of five companies: A, D, F, H and J. Company J did not respond to this second interview round, in spite of repeated follow ups. This company is therefore not included in this part of the analysis.

Company A has increased its sales from 220 to 300 million kr. during the review period - 37%. During this period the export share of sales has steadily increased from 45 to some 70%, without increasing its presence in more countries. In March 1992 the company was acquired by the mother company of company D in our sample. The major reason for this move was to alleviate the effects of a very harsh competition between players in international markets. Today the two companies (A and D) have in principle divided the markets between them: company A servicing the fishing vessel sector, company D concentrating on the commercial vessel market. Company A will, however, still manufacture winches for the commercial sector, but the marketing of these products will be administred by company D. Also company A, will as a result of the takeover, operate as a subcontractor to company D on certain types of winches, thus contributing to a more rational manufacturing set up.

Company A has been very active selling in international markets the last three years (x), seeking new customers and customer groups (r). They have also been active in a systematic search of new international markets (y), gradually expanding their market arena (d). Furthermore, company A has tried to consolidate its position with established customers and distributors in their export markets (f, k, m). At the same time they have devoted attention to a dwindling home market (a) in order to maintain their dominance in one of the world's most important markets in the fishing sector. Another feature of their strategy the last three years is a thorough evaluation of their product and customer mix (g). It is also interesting to notice that company management increasingly pay attention to competitive responses before implementing their strategies in international markets (u).

The attitudes to internationalisation exhibited by the managing director of the firm may best be characterised as a blend of proactive (6c) and reactive (6a) motives.

To what extent do these strategic actions conform with the recommendations given four years ago? It should firstly be noted that the new ownership structure, entailing a division of marketing responsibilities between the two companies that have become sisters, dramatically has changed the preconditions for strategy formation originally identified within the company. It has narrowed the competitive arena (basically to the fishing and offshore/anchor handling sector only) of company A, and hence, led to a potential increase in relative market share of the company, which may materialise as a result of more concentrated marketing efforts. The medium to long term effect may, *ipso facto*, be an enhancement of the company's preparedness for internationalisation as defined in our framework. The competitive structure does not seem to be otherwise affected by this shift in marketing emphasis by company A (and D), in that the same market actors play a role in all three sectors (fishing, offshore and merchant vessels). This being said, it seems as though the strategic thrust of company A has only partly followed the advices given by the model. Indeed, the company has reassessed its customer/product mix (as a result of the take over), and followed up on the suggestions of long term partnerships with key customers/distributors. On the other hand, the company has only recently sought to redefine its position vis-à-vis its licencee in Japan. The licence agreement expires in 1996, and the company is in the process of redefining its role in the Far East well before this expiration date.

Company D has shown a rapid sales growth in the reviewed period doubling its sales from 93 million kr. in 1988 to around 190 million nkr. in 1991 and 1992. The operating margin of the firm has established itself around 4,0% toward the end of the period - up from 1,4% in 1988. The equity share of the capital has, however, been reduced from 16 to 11% of total capital as a result of intercompany contributions (tax considerations at the mother company level).

The company seems fairly proactive in its stance toward international market opportunities, emphasising factors like own competencies (6c), business opportunities in foreign markets (6j). Also unsolicited approaches (6g) do play a role for their market involvement. These observations indicate that the company does not yet feel compelled by competitive forces to take strategic actions in the interantional market place. Rather, the expansion is prompted by internally generated motives.

These results have been achieved through a stepwise strategy toward markets (d) and through a conscious relation building approach to selected shipyards and shipowners both in new (m) and existing (f) markets. Also, the company has actively sought markets where its competitors are strong (q). In particular, it has been deemed necessary to establish a presence in Japan, this market alone representing more than 30% of total deliveries of newbuildings to the world market. Furthermore, they have consolidated their marketing activities partly by establishing a market intelligence system (early warning/project tracking) in order to capture changing conditions in world markets (t) and partly by strengthening the control with their marketing efforts through their representatives in world markets (n). All these moves comply "nearly 100%" with the recommendations provided three years ago.

Parallel to this development, the mother company of company D has acquired their largest competitor in Norway, company A in our sample (see above). This is a move to reduce the cut throat competition often exercised by Norwegian winch manufacturers in world markets. The result has been a more conscious division of market responsibility between the two companies, company D taking charge of the customers in the merchant fleet segment. This acquisition seems to have contributed to the financial improvement of company D, making possible a more "single minded" focus on the merchant vessel sector.

Company F has shown stagnating and even reduced sales since the end of the 1980´s - 70 million nkr, in 1989 to 65 million nkr. in 1992. The results however have varied substantially - with operating margins from around zero and even negative in 1989 and 90 to a high of 12,9% in 1991, back to 1,1% in 1992. The reason given for this development is the very bleak development in the company´s main market, fishing vessels, particularly in Europe, but also their sales in South America (Chile) exhibiting a very erratic pattern. This shortfall has partly been offset by increased sales to the North Sea offshore market. In the same period the company has been able to enhance its equity share of the balance sheet (from around 20 to 41%) through a critical review of short term assets and liabilities.

Company F seems to be directed in their international operations predominantly by internally generated motives, such as a desire to capitalise on their competencies (6c) and a need to distribute the commercial risk on several markets (6d). They also state that Norway´s limited market base forces them to export (6a). There is little indication that a potential globalisation of the industry gives company management concern about competitive pressures in their established markets.

The strategies carried out during this period has in particular been characterised by focused work in its largest markets, Norway, UK and Chile (d), through extensive customer relations (a, b, f) by critically reviewing its product/market portfolio (g) and through increased control of marketing and sales activities (n). At the same time the company has placed great emphasis in building a position in the North Sea off shore market (r) with new products (o). All these actions lead up to a comprehensive compliance with the model: "Consolidate your position in established markets".

Company H has almost doubled its sales between 1988 and 1992, from 220 to 430 million nkr. The three first years of this period the operation showed a sturdy margin of beween 6 and 8%. In 1991 and 92 the situation deteriorated dramatically mainly because of the slump in the market blamed on the Gulf crisis: the operating margin fell to a mere 3% in 1991 and further to (2%) in 1992. Prices are allegedly the only sales argument that works in a depressed world market, a situation which is expected to continue well into 1993. The solidity of the firm has been at a sound 30% in 1990 and 1991 and is still at this level thanks to contribution from the mother company in 1992.

Company management seems to a surprisingly high degree to be guided in their internationalisation by motives like "too limited home market" (6a) and "unsolicited approaches from foreign business partners" (6g). Still, they do realise the worth of their competencies (6c) as one of the leading propeller suppliers in the world.

Company H´s strategy may best be described as consolidation in traditional markets both of customer relations (f, m) and of the marketing activities of the organisation (g, n, l). To a somewhat lesser extent the company has sought market expansion in Norway (b) and abroad (r) through acquisition (p) and active search of new projects (x). These are the very ingredients in the recommendation to the company three years ago. However, the company management does not exhibit the same degree of apprehension of the competitive situation as has been suggested in the company analysis. In fact, they appear more driven by opportunities in foreign markets than by the need to position themselves toward competitors in world markets (question 6j). They state that preemptive market entries are being considered and to some extent carried out (q). On the other hand, they do not seem utterly concerned by potential competitive threats (j, u and question 6i) and have done little to build a market intelligence system to capture signals about changes in the market place (t). The reason for such passivity toward competition is a belief by management that the competitive structure will not change dramatically in the foreseeable future. In fact, it is company H that has been the most aggressive one to initiate changes in the competitive structure by acquiring a large Norwegian competitor in 1989.

As a result, this company is now rated as one of three world leaders in the propeller market.

To sum up, the strategic approach taken by company H exhibits many signs of following the suggestions put forward by the model, although the management seems to be less concerned by competitive structure than warranted by the position of the company along the globality axis of the model.

Summary of Group 1

The companies in Group 1 are all heavily involved in international markets, but seem to a varying degree to capitalise on the market growth. At the outset, two of the companies were familiy owned, whereas the remainder has belonged to ship and ship equipment groups. These two latter seem to have fared much better than the two family owned companies (A and F); company A exhibiting a third of the growth of the two group members, and eventually being bought by the mother company of company D; company F struggling to maintain sales at their 1990 level. However, broadly speaking, all seem to follow the general guidlines given by the recommendations of the model: consolidation in established markets and different degrees of expansion into new market/product areas. Table 5.1 sums up the main issues dealt with in this section:

Table 5.1: Summary of Cases in Group 1

Item	Firm A	Firm D	Firm F	Firm H
Sales growth 1989-92	37%	114%	(7%)	95%
Exports 1989-92	45-70%	87-79%	70-63%	35-50%
Number of export countries 1989-92	25-25	15-15	10-10	18-20
Operating margin 1989-92	1,5-5,9%	1,4-4,0%	0-1,1%	8-(2%)
Equity % 1992	13%	11%	41%	30%
Financial strength	Weak	Weak	Medium	Medium

Table 5.1: continued

Strategic thrust	Consolidation and systematic export expansion.	Consolidation and stepwise export expansion.	Consolidation, and new product development.	Consolidation and focused export expansion.
Assistance from mother company	Shared market responsibilities with co. D after take over.	Shared market responsibilities with co. A. Interco. contributions.	n.a.	Intercompany contributions in 1992.

Group 2

This group consists of two companies - B and I .

Company B has fared reasonably well the last four years. Their sales have increased by 90% in this period and their balance sheet has more than doubled without substantially eroding the equity share of the capital (stabilising at 42% down from 48% in 1989). Their ROI has varied between 11 and 15%, their operating margins however having slipped from 14,5 to 10% during the same period. Our concern in this context is the development of the defence division of the company. This sector has increased its sales from 100 million nkr. to 150 the last four years - only half the growth of the whole company, the increase being generally ascribed to the acquisition of a Scottish company. On the other hand, the defence division has shown extraordinary positive operating results, with margins in the order of 15-20% except in 1992, where it dramatically slipped to 5%. This decline was attributed to a cost overrun of 15 million nkr. in a product development project involving a mineclearing device.

Although technological competencies (6c) play an important role in their motivations for entering international markets, the defence unit of company B is unexpectedly reactive in their posture toward international markets, citing both the smallness of the Norwegian market (6a) and unsolicited requests (6g) from prospective customers as the most important factors guiding their international market involvemnt.

In spite of these predispositions, company management is allegedly taking a conscious stance toward a stepwise approach to choosing markets, building relations with a selected number of customers and distributors in these markets (d,f). At the same time it has been important to reassert their position in the home market (a, c). The division operates in a market which by nature is dominated by large projects carried out by national navies in different parts of the world. Therefore it has placed great emphasis on systematically searching projects "whereever they occur" (x). This development has been achieved partly through their alliance with their French partner (i). In fact, this partner is both the largest shareholder of the company (15%) and an intimate partner in product development and marketing projects, not only in Norway but also in other countries. At the same time they compete in other markets.

Moreover, both the acquisition of their Scottish subsidiary (p), and product development procjects (o) are interpreted as being signs of mature assessment by management to affirm the company´s role in international markets.

One may speculate whether the French partner is going to acquire a larger share of the company. The close relationship they have developed in the naval sector, may easily be expanded to other divisions of the company. Another interesting feature of the company´s strategy is their problem in getting to grips with markets like Germany and UK where their most important competitors are located. These companies offer considerable competition even in the home market, the Norwegian Navy having a more liberal stance toward public procurement practices than its counterparts in Germany and UK. Thus, the company has had problems in carrying out a strategy of retaliation (à la Hamel and Prahalad, 1985). On the other hand, company management does not seem to appreciate the importance of competitive analysis and the role of competition in its future positioning in the market place (e, j, q, u).

All in all the company displays a bundle of different strategic approaches to world markets, many of which may be interpreted as "Seek global alliances" and "(Consider to) expand in international markets":

- Alliances with an international (if not global) reach
- Strengthening ties with customers and distributors
- Systematic search of new markets.

Company I has undergone great changes the last three years. 1) The company was taken over by a another company with related products, this latter in its turn shifting owners from a group of large Norwegian concerns (oil, airline, engineering/contracting) to a large state owned manufacturer of defence electronics, with long term aspirations in the information technology industry. 2) Its newly appointed president brought with him a culture alien to the prevailing organisational culture of the firm. After two years of introducing market and cost oriented strategies (in the place of more product /technology oriented ones) the president had to withdraw because of alleged lack of understanding of the particularilities of the organisation and therefore an inability to sway the organisational culture to a more profit oriented one. This discord was partly unveiled in our first approach to the company. 3) Yet, the company has shown an impressive growth of some 300% (from around 60 to 246 million nkr.) the last four years, as a result of the more market oriented strategies.

Both the smallness of the Norwegian market (6a), and its large market share in the home market (6h) are cited along with the more proactive"competencies" (6c) as being the three most decisive motives guiding their international engagement. Again, there is little evidence of any fear of competitive pressures pushing the company into international markets to counter such a "threat". The reason for this apparent complacency may be the fact that the industry globality shows few signs of moving to the right in the grid.

Company management maintains that the company today is world leader in its niche and that volume and economies of scale now are more important to achieve good returns than the more traditional sales arguments put forward by Norwegian companies: quality and application know how. Despite its leadership role, the company struggles with competitors offering more flexible automation systems. It has also initiated a process of reactivating its role vis-á-vis its agent network throughout the world.

The result has been a stop to the financial blood-letting of the company the last two years of the 1980´s. On the other hand, the tremendous sales growth since 1989 has put great strain on both the company´s liquidity and its organisation. Thus, the operating and financial results have suffered in

1992 (operating margin of -0,5%). Even if the equity share of the capital increased from 2,5 to 18% between 1988 and 1991, this trend was reversed in 1992. In this year the equity share of the capital decreased to 13%.

To sum up, the strategic thrust of company I has been characterised by the following features:

- Seeking a partner with both financial and management resources (h, i)
- Cementing relations with shipyards and shipowners (m)
- Affirming the role of its marketing department, through increased HQ control of market activities (n) and by implementing a market intelligence system (t).
- Product development, partly by taking over the marketing responsibility of one of the products of a sister company (o)
- Active search for new customers/customer groups in international markets (r).

These strategies may be placed in different cells in the model: "Expand in international markets", "Strengthen your global position", "Seek global alliances", and unquestionably "Prepare for a buy-out". This is a fairly wide spread of strategies in the suggested model and a further discussion is therefore warranted.

When a firm is placed in the "Prepare for a buy-out"-window, the model suggests that management should actively seek a partner better placed - both financially and in terms of management resources - to exploit the competencies of the company in global markets. In the case of company I, its financial resources toward the end of the 1980's were strained to the extent (equity share down at 2,5%) that it would not be able to survive without a sound financial backing of new owners. This situation was aggravated by the position of the firm along the globality axis in the model. Once the ownership issue was solved, management could actively carry out new strategies to capture shares in new markets. Such a strategy was aggressively implemented in selected markets, i.e. South Korea ("Expand in new markets") to the extent that the firm today is a markets leader outside Japan. The growth from around 60 million to 250 million nkr. occured during a period of only four years! Today, the company has achieved a leadership role in many markets (West Europe, S. Korea) and time has now come to consolidate the situation, through increased HQ control of market activities, through establishing a market intelligence system and through a more systematic approach to its international network.

Summary Group 2

Both companies in this group belong to the maritime IT-cluster in Norway (Reve et al, 1992). They meet in their individual ways the requirements of globalising markets. Company I has in fact climbed the "preparedness axis" through ownership reshuffles and an extraordinarily expansive marketing drive, and hopes in this way to have achieved the economies of scale requested by a world leader. However the company is still not in the black and it is reasonable to conclude that the great leap in its international sales volume would not have been feasible without the rearrangement of its ownership base. On the other hand, the defence unit of company B has followed the recommendations of the model through its emphasis on the strategic alliance and the acquisition in Scotland, although this conclusion may be modified somewhat by the lack of attention to competitors´ strategies.

Table 5.2: Summary of Cases in Group 2

Item	Firm B	Firm I
Sales growth 1989-92	50%	300%
Exports 1989-92	70-70%	90-90%
Number of export countries 1989-92	10-10	40-40
Operating margin 1989-92	15-5%	0-(0,5)%
Equity % 1992	42%*	13%
Financial strength	Strong	Weak
Strategic thrust	Consolidation at home, stepwise export expansion. Acquisition abroad. Deepening of SA.	Consolidation, rapid export expansion. New owners.
Assistance from mother company		Intercompany contributions.

*Company figure, not that of the product group

Group 3

Reviewing the firms in group three - E, G, and K - gives the following picture:

Company E has followed a complex strategy, with the following headlines:

- Active project search world wide (x)
- Strengthening of the home base (the marketing organisation), (l)
- Rapid expansion in order to counter competitive attack (e)
- Systematic search for new markets (y).
- Substition of its licencing partner by a more active presence in Japan
- Strengthening ties with existing and new customers and distributors abroad (k).

These strategic moves seem all to contain elements of "Prepare for globalisation" and even "Strengthen your global position" and are therefore deemed to be in compliance with the recommendations given three years ago. Particular attention is given to the Japanese venture: two of the company's most ardent competitors are located in Japan. In 1992 they made a break through in the Japanese market, with orders from the Kawasaki Group to equip two LPG tankers. Its insistence on being active in that particular market is interpreted as being a sign of awareness by company management of the increasing globality of the industry structure.

Although 80% of its sales stem from the shipping sector, company E has increasingly sought to extend its market coverage to land based activities. Last year, this new orientation yielded the first break through order - a gas terminal project in Taiwan.

The motives for its international involvement are cited to be the smallness of the Norwegian market (6a), and the company's large market share in the home market (6h) along with the more proactive "competencies" (6c). Again, there is little evidence of any fear of competitive pressures pushing the company into international markets to counter such a "threat". Therefore, the steps taken to affirm their presence in Japan may be interpreted as a preemptive and long term move to secure a market position in a very complex market, rather than a reaction to an imminent threat of competitive retaliation. If successful, such a move by a market leader outside Japan may in itself constitute a decisive driving force in the globalisation of that particular industry.

These strategies have given good rewards: the company has increased its presence in international markets, from 25 to 36 countries during the three year period, and has increased its sales from 57 to 83 million kr - albeit with a somewhat erratic development. Its operating margins has the last four years oscillated between 6 and 9%. The equity share of the company has varied greatly between 24% (1989) and 40% (1991), primarily due to intercompany dispositions within the owner holding company.

Company G has placed the main emphasis on building relations in the market, through extensive networking with customers and distributors (f, k) and through strengthening their position in one market (UK) by acquiring a small company with complementary products (p). The acquisition is said to be carried out partly as a result of the recommendations given three years earlier. This strategic orientation is by the author considered to be an extension of the strategies stated by company management before the three year period. Furthermore, this company has put great efforts into developing new products (o), in conjunction with other companies with related products and technologies to arrive at a concept of total navigation *systems*.

Both the acquisition and the product development projects have appeared to be relatively onerous and have contributed to the poor financial results of the company the last two years (net result before extraordinary items -2 and -4 million kr. in 1992 and 1991 respectively). However, dramatically reduced demand of about 50% in 1991 in their most important market - the US (taking off about 40% of total sales), is attributed the lion´s share of the blame on poor results (operating margin fell from 9 to 2% over three years). Another important factor in this context is the gradual concentration of the industry structure, placing more stress on the market players; two of their major competitors in Europe have been acquired by large US based firms, pushing the globality of the industry a step towards the right in the model. It may also be added that the company has not had a general manager the last two years and that the marketing manager was replaced in 1992, indicating lack of managerial resources and poor continuity in the managerial style of the company. Technological synergies with one of the product development partners - duly "helped" by the last two years´ poor results - were the main reason why the company was eventually acquired by one of the leading Norwegian firms in maritime electronics industry in the Spring of 1993.

The smallness of the Norwegian market (6a), and the company´s large market share in its home market (6h) are said to be among the three most important driving forces in its international operations, the third factor being proprietary "competencies" (6c). The apparent underestimation of the competitive pressures is conspicuous also in company G.

Generally speaking, company G has to a large extent followed the recommendations given three years ago. They have sought to assert their presence (through acquisition) in markets where their main competitors are strong (q), and in this way tried to fill strategic gaps in their primary market arena. They have furthermore endeavoured to affirm their technological lead through innovative product development, although this investment has not been crowned with success, so far.

The strategies of **company K** may be summed up under three headings:

- Consolidation of its position through cementing relations with existing customers (f), critically reviewing its product/market portfolio (g), and a stepwise (d) approach to interntional markets .
- Active expansion of its international customer base (r).
- Active positioning vis-à-vis its competitors (j, q, u).

Albeit the company has continued its plans to conquer shares in international markets, it seems as though its main thrust has been to consolidate its existing market positions. Still, the strategy thinking of the management seems to be pervaded by a more aggressive stance toward competition. It has increased its market presence from 17 to 26 countries during the review period and it has established own sales subsidiaries in two more countries (from six to eight).

The export motives of company K are partly the recurrent smallness of and the company's market share in its home market (6a and h), but also a need to position itself in other markets because of the expected impact of the EU and GATT developments (6i). The emphasis on this last factor is yet another indication of management awareness of the globalisation of the industry structure.

The reward has been a steady increase in international sales - from 404 to 470 million nkr. in the 1989-91 period. This development was however interrupted in 1992 due to what company management terms "market conditions in Europe", exports declining to 420 million nkr. The company was particularly hard hit in Finland, their most important export market and the UK. The operating margin has fluctuated between 4 and 6 % in the years 1988-91, decreasing dramatically in 1992 to 1,3%.

Summary Group 3

Summing up the strategies of the companies in group 3, it seems reasonable to conclude that they have adopted strategies in compliance with the recommendations given by the model - albeit to different degrees. The most conspicous accord occurs in company E, with a bundle of different strategies all concurrently aimed at positioning the company in world markets ("Prepare for globalisation"). Company E has continued to yield good return to its owners. Also company G has implemented part of the strategies in compliance with the recommendations given three years earlier. The failure to perform seems more attributable to market conditions than to a flawed strategy. On the other hand there is reason to question the inability of company management to successfully carry out the take over of the UK company. Company K has similarly exhibited a proactive stance toward asserting its market position in world markets, both increasing its market shares and spread, partly in order to counter competitive action.

Table 5.3: Summary of cases in Group 3

Item	Firm G	Firm E	Firm K
Sales growth 1989-92	5%	46%	21%
Exports 1989-92	88-78%	63-75%	65-62%
Number of export countries 1989-92	33-35	25-36	17-26
Operating margin 1989-92	9-2%	6-8%	4-1,3%
Equity % 1992	19%	33%	22%
Financial strength	Medium	Strong	Medium
Strategic thrust	Consolidation abroad, acquisition in UK and competitive positioning.	Consolidation, rapid export expansion and JV in Japan.	Consolidation, active export expansion and competitive positioning.
"Assistance" from mother company	Net contributions to mother company.	Large contributions to mother company.	n.a.

"Group 4"

Company C is the only one in "group 4". This company has trebled its sales since 1988. Much of the increase is due to its success with a mobile satellite communication system (which was used during the Gulf War by CNN journalist Barnett). In spite of its sales successes, the profitability of company C - its operating margins butting up against the 3% mark - still leaves to desire. The two main reasons given for this shortcoming are:
- lack of "money culture" within the organisation
- poor project management systems in the product development process.

Top priority is given to the following strategic issues:

- Product development (o)
- Rapid expansion in international markets to preempt competitve action (e)
- Cementing relations with customers and distributors (f)
- Project search (x).

The company has furthermore strengthened its internal marketing organisation during the reviewed period (l) and has been able to prolong the life cycle of products previously deemed obsolete, both in existing markets and entering new markets with these products. However, Japan seems still to be a "white spot" on their world map. Except for this last fact - however important it may be, the company seems to have carried out strategies in compliance with its position in the grid: On the one hand consolidation of its market leadership position through product development and tightening relations with customers and distribution channels; and on the other hand expansion through preemptive market entries, and active project search "whereever they are located". Entering Japan is still considered to be a too onerous "adventure", with little possibility of being crowned with success.

The main export motives of the company are - besides the small Norwegian home market (6a) - competencies (6c) and need for impulses as an input in their "Norwegian strategy" (6f). It is again striking to notice an apparent lack of concern of global competition by management of one of the leading companies in a more or less global industry. In stead the *raison d'être* in international markets is stated to be the need for impulses to sales representing only between 10 and 20% of total sales volume. Although the link may appear subtle, it is tempting to connect this posture to the lack of presence in the Japanese market.

Table 5.4: Summary of Case in "Group 4"

Item	**Firm C**
Sales growth 1989-92	68%
Exports 1989-92	90-80%
Number of export countries 1989-92	50-60
Operating margin 1989-92	3-4%
Equity % 1992	31%
Financial strength	Medium to strong
Strategic thrust	Consolidation and rapid expansion. Extensive project search and product development.
"Assistance" from mother company	Limited support; being part of a large global firm gives strength in "political" markets.

Chapter Six
Analysis of Company Strategies in the Construction Industry

Chapter Six
Analysis of Company Strategies in the Construction Industry

This chapter analyses the firms of the construction industry. It is built up along the same logic as chapter five - in three sections. Section 1 describes the general structure of the construction industry with regard to the globality of selected sectors as of 1989-90, whereas section 2 brings the analysis to the company level and compares the respondent companies´ actual strategies with those suggested in the strategy model. Section 3 reviews relevant elements of the companies´ strategies three/four years later - in 1993. The procedure adopted to locate the case firms in the model is described in appendix 4.

6.1 Industry Analysis

The size of the construction market in the Triad is estimated at 1.500 bill USD (1990), the Europeans taking off the lion´s share of 40%, the remainder being more or less equally shared between Japan and the US[13]. The present analysis is primarily oriented toward issues in the European market. There are several reasons for this:

- In particular, the Japanese market and to some extent also the US market are, if not closed to foreign competition, so at least clearly dominated by national suppliers. There are few indications that this picture will change during the 1990´s.
- In Western Europe the market for construction products and engineering services is more open to competition from international players. It is also expected that regional trade will increase as a result of the "Single Market".
- The market for construction products and engineering services is irrespective of differences between regions expected to be classified as being "multilocal" in the present theoretical framework.

[13] Source: Elvenes, Hårek and Tor Erik Knutsen: "Globaliseringstrender på det internasjonale annleggsmarkedet", Thesis at the Master of General Management programme at the Norwegian School of Management, 1991.

In 1985 the European construction business started a new period of growth after more than a decade of stagnation or decline. Spain, in particular, has been growing at a rapid rate of between 10 and 15% the last half of the 1980s. However, well into the 1990s, the industry is again feeling the hardship of low economic growth[14].

This section will discuss two factors of importance to the structure of the construction industry in Europe: 1) market accessibility and 2) structure of the competition. It will also discuss potential changes in the globality (or lack of such) of this industry.

6.1.1 Market Accessibility

In section 2.2.4 we have defined international barriers to entry to be determined by channel control, culture and government actions. In this subsection we will discuss the two latter factors. In its widest meaning culture may encompass all these factors. In the construction business culture seems to be an all pervading element, both in terms of design, material, method of production (for instance to build dwellings) and in terms of managing project groups of people (craftsmen, carpenters and construction workers) from different nations. More tangibly, this subsection describes three facets of market accessibility: architectural styles, nationalistic purchasing practices, standards.

Architectural styles

Different architectural styles may be observed in many ways. By personal observation we know that private dwellings on the Continent and in Great Britain are erected in brick and concrete, whereas in Scandinavia most private homes are raised in wood. The standard of the dwellings varies greatly between European nations. Average consumption on housing was in 1989 around 1.100 USD capita in the EU region, whereas the corresponding figure for the EFTA countries amounted to 1.850. The

---

[14]Elvenes and Knutsen, 1991, op. cit.

differences between individual countries are of course more dramatic; Portugal is in the low end with 263 and Sweden in the high end with her 2.358 USD per capita. Other factors like for instance distribution of rooms indicate furthermore the difference of culture in the construction industry. In Belgium 1% of the dwellings consist of one room appartments; the corresponding figure for Portugal is 15%. At the other end of the scale we find Luxembourg with 65% of her dwellings with five rooms or more; the EU average stands at 31%[15].

An other example can be drawn from the manufacturing of window frames where the use of material differs considerably from country to country. Not surprisingly, wood is the dominant material in use in the Nordic countries, whereas PVC and aluminum are more prevalent in the EU. Table 6.1 gives examples from differences within the EU.

Table 6.1: Materials in Window Frames in Selected EU Countries in 1988, %

	Wood	PVC	Alu	Other
Denmark	69	20	18	1
West Germany	38	23	37	2
Spain	21	72	7	0
France	46	29	24	0
Netherlands	65	20	13	1
Great Britain	35	33	28	3

Source: Féderation des Associations Europëenes de Constructeurs de Fenêtre

However, wooden windows may be grouped in different categories according to types of wood. In the Nordic countries the dominant wood used in windows is of socalled soft-type, whereas in the Netherlands different types of hardwood represent more than 70% of sales[16].

Nationalistic purchasing practices

Nationalistic purchasing practices are closely connected to architectural styles because use of material, sizes, design etc. are all culturally determined and local suppliers in general are better placed and, hence, more

[15] Euromonintor, 1993
[16] Bouwcentrum, Netherlands1990.

apt to service "cultural markets". Also other factors come into play, most visibly examplified by public tenders and more indirectly through subsidized refurbishing[17]. As of 1993 the market for public purchase is open for bidders from all the countries of the European Economic Area for contracts amounting to more than 5 million ECUs. However, it is generally expected that it will take time before public tenders are open for free competition throughout Europe. It is deemed possible to circumvent the rules by tailoring specifications to local suppliers and make demands upon suppliers which are difficult to meet for foreigners. Such practice is probably touching the fringes of the legally admissible, but is often difficult to detect. One great case has been conducted in the EU-Court, the Great Belt bridge in Denmark, where the Danish client was convicted to pay indemnities to the French competitor of the local Danish supplier who was assigned to carry out the works. However, this was not only an obvious case, it also involved large sums of money.

Standards

One of the most important barriers to international trade in building materials/services appears to be different standards in the individual countries. This factor implies the costs of adapting to different countries' requirements as well as the costs connected to testing procedures and quality control. These cost factors vary greatly between different types of product. Concerning windows, for instance, it has been established that costs of testing and controlling the products in one single country may attain 100.000 NOK (about 10.000 GBP). The extensive requirements to comply with standards and certification demands often zealously applied to foreign suppliers have in reality had the consequence of protecting local manufacturers from foreign competitors. Even within the nordic countries the industry experiences these barriers, instructively elucidated by the following example (Ehrnrooth, 1986):

- Rain penetration of windows is tested in one way in Norway and differently in Finland and Sweden.

---

[17]Bouwcentrum, Netherlands, 1990

- K-values (measuring the heat conducting abilities) for windows are gauged differently in Finland (the window pane only) and Sweden (both the window pane and the frame).
- Whereas gypsum boards are classified as inflammable materials in Finland, the classification in Sweden is:"non-flammable material with inflammable surface".
- Within the contracting business the authorisation system of contrators in Norway is regarded as a serious barrier to entry for foreign contractors.

An inter-nordic government committee has worked with harmonisation of building regulations, but several areas have not yet reached a common solution. The work within the EU to achieve mutual acceptability of products and product testing methods is still under way, and will as a consequence of the EEA-Agreement have ramificatons for the nordic non-EU members. Agreements of mutual acceptance of products and product testing methods have been signed between the Benelux countries and Germany. One may say that the trend is toward a more harmonised system of mutual acceptance and standard products. However, it does take time to ratify and implement all the directives in all the countries in the EEA.

As a summary, one may conclude that the building industry generally operates in markets that have different traditions, standards and testing methods, even in neighbouring countries. This varies according to type of product: sawn wood, for instance, where the product specifications may vary, is not negatively affected by costs of adaptation to each market. Figure 6.1 gives an illustration of the market accessibility of different sectors of the building/construction market.

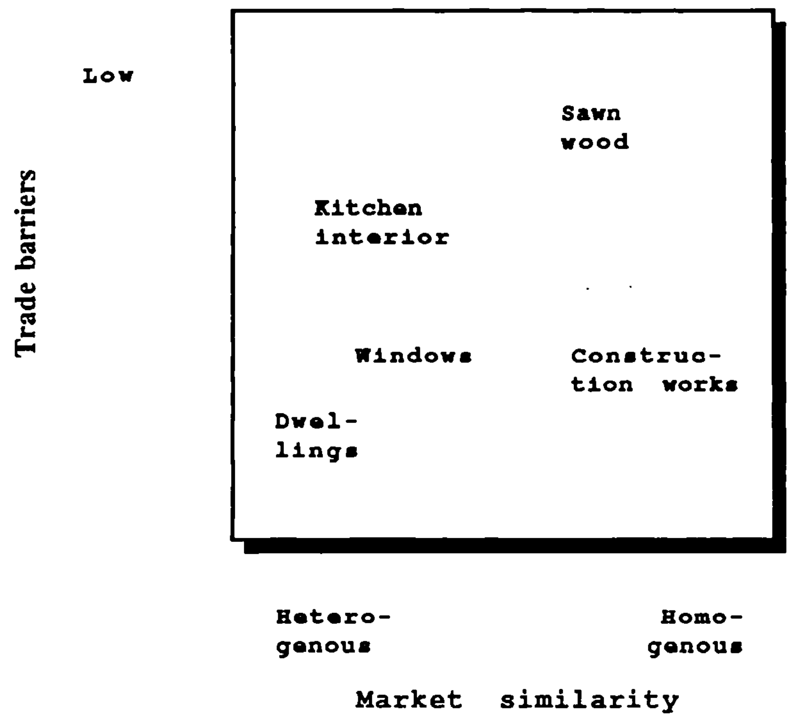

Figure 6.1: Market Accessibility of Different Sectors of the Building and Construction Business

6.1.2 Competitive Structure

The analysis of the competitive structure of the different sectors of the building and construction industry is carried out according to the model described in figure 3.4. As a matter of example, this section will describe in somewhat detail two sectors of the industry, kitchen interior and sawn wood.

In the *kitchen interior* market there are few players that operate internationally. Rather the industry is dominated by small, local manufacturers with low overhead costs. Norema of Norway is one of the few players in the industry that has invested in automisation (computer integrated manufacturing) and large scale manufacturing. Such an approach requires an extensive marketing network. On the other hand, the structure among the building business (architects, building contractors, manufacturers of prefabricated houses) is quite fragmented, with a host of different types of firms catering to a diversity of segments in the market. In the international arena, this factor is aggregated by number of countries, where cultural factors play a decisive role in building styles, thus augmenting the number of segments. Thus, it has been possible for a host of small and medium sized suppliers of kitchen interior to survive, despite increasing internationalisation of technology and markets in general. Figure 6.2 shows the structure of this sector of the building industry.

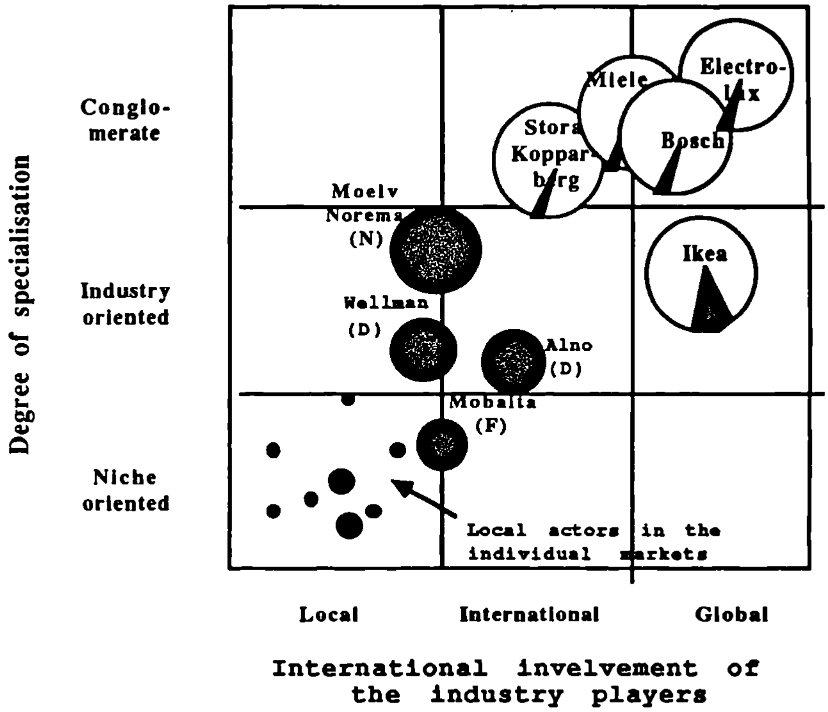

Figure 6.2: The Competitive Structure of the Kitchen Interior Industry

One striking feature of this picture is the presence of large multinational suppliers of major house hold appliances (Miele, Bosch, Electrolux etc). These have more or less wholeheartedly included kitchen interior as part of their total offering. Yet, their market shares do not compare with their position in the white goods market. Also IKEA has a dent into this market. But again, their market share of the kitchen interior market is still limited. Kitchen interior plays only a limited role for these suppliers.

One supplier in Europe has, nevertheless, played a major role in this industry: Stora Kopparberg of Sweden. This conglomerate has had control of market leaders in Sweden, Denmark, Norway and Germany, and was seen as the industry leader in Europe. However, as a result of heavy investments in other parts of the conglomerate, and as result of declining financial results, they decided to sell their kitchen interior division. As there were no large companies in this industry ready to take over the market leader, the different parts of the company have been sought sold to different buyers - although without success. In this way one may say that the European market for kitchen interior would have "deglobalised" during the first couple of years of the nineties.

The structure of the sawn wood industry is characterised by large suppliers operating in the international market. This holds particularly true for Canadian and Russian suppliers, but also nordic suppliers are active in many countries, especially in Western Europe. These players compete also in the local market with a number of locally oriented sawmills, and constitute a major factor in the international price determination process. There is a trend of sawmills specialising in component fabrication, with taylor made components to manufacturers of windows, doors, staircases, furniture etc. These deliveries tend to be more locally oriented, partly because they meet the demand of a very fragmented customer group. A rough structure of the industry is pictured in figure 6.3.

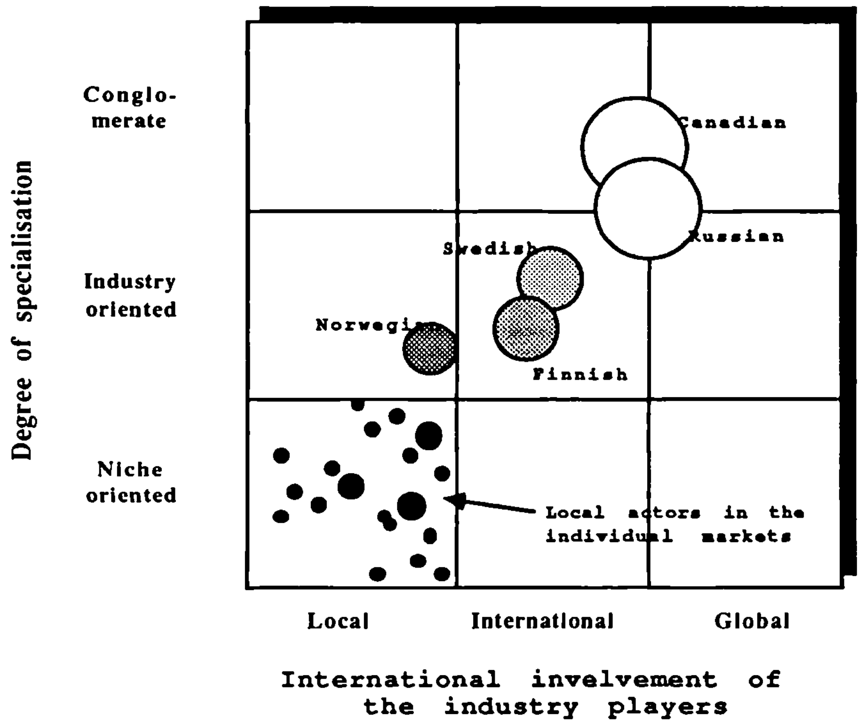

Figure 6.3: The Competitive Structure of the Sawmill Industry

Similar analyses have been carried out for other sectors of the construction business. Figure 6.4 sums up the findings and describes the competitive position of a number of sectors in the construction business: sawmills, construction works, dwellings, windows, kitchen interior. The figure shows that most of these sectors tend to be located in the lower left part of the grid, indicating the characteristics of locally oriented industries.

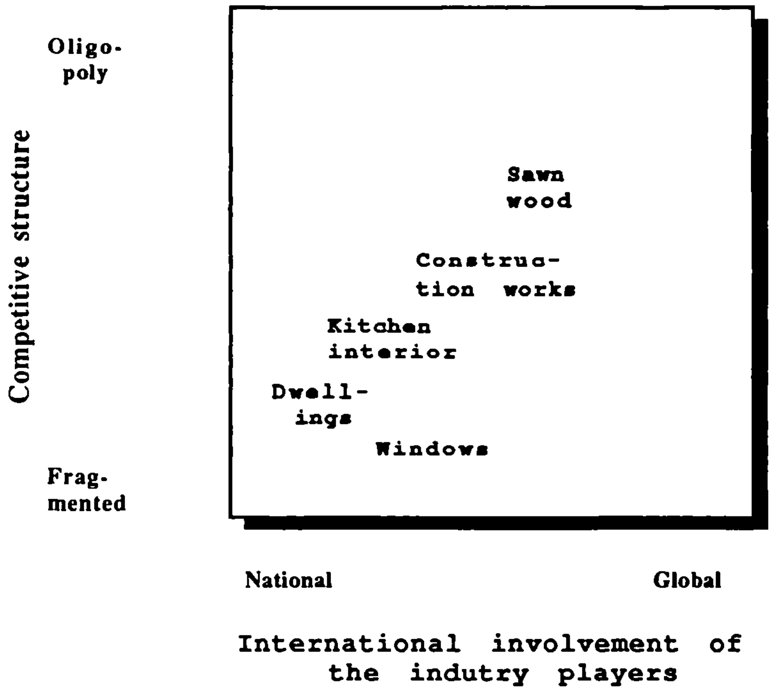

Figure 6.4: International Competitive Structure in Selected Construction Business Sectors

6.1.3 Industry Globality; Possible Developments

In the previous subsections the effects of market barriers and competitive structure on the globality of selected sectors of the construction and building industry have been analysed. This industry is generally oriented toward the local home market. Therefore it is expected that many companies in this industry are vulnerable to changes in the international business environment. In fact, several changes are expected:

- Public purchase in the EU of more than 5 mill ECU will be opened to competition from member countries. The EFTA countries adhering to the EEA are also subject to this regulation. As a result, the competition in Europe for construction works is expected to be more internationalised in the years to come. Such rules may be circumvented by tailormade specifications or simply because tradition and local loyalties will maintain established relations between public agencies and suppliers in most markets. Yet, the EU Court is expected in the longer run to force new competitive patterns in the construction and building industries in Europe. The construction works industry, in particular, is expected to be undergoing changes in this respect. This sector is already more internationally oriented (as shown in figures 6.1 and 6.4) and several international players are well positioned to exploit the opportunities offered in the wake of this development. Concerning sawn wood - on the other hand - part of this industry is already fairly internationalised (see figure 6.3). This industry is also little affected by public purchase regulations, to the extent that it is not expected to be subject to any great changes as a consequence of these developments.

- Also, the trends toward more standardised or mutually accepted building materials (such as windows, doors, staircases, components etc) seen as a result of the EU Directives will open for more liberalised trade. However, the many small companies within this sector of the industry, together with local building traditions will constitute a major obstacle to a dramatic globalisation in this instance the next decade. Some companies - such as Norema of Norway - have already invested in large scale.production facilities, and are well placed to develop international strategies. On a more generalised basis this factor may come into play in a future restructuring of the industry, the main feature of which then being the introduction of integrated manufacturing (CIM) and flexible manufacturing systems (FMS) allowing adaptation of products to local conditions (see next paragraph).

- Tehnological innovations such as CIM or FMS may change this picture. One possibility is large sawmills today delivering sawn wood to international markets, seize opportunities stepping down the value chain with large scale operation of tailor made components to wood fabricating/assemblying firms. Such a development may move the industry structure at the sawmill level to be a more oligopolistic one as this kind of investment (CIM/FMS) normally requires high volumes to be competitive in this particular industry.

Summing up, there are, indeed, some globalisation drivers in the construction and building industry. The pace with which they will change the diversity of this sector of the industry to take on a more global structure is highly uncertain. Inertia in the public procurement sector, combined with long traditions in this particular business, indicates a pattern of slow and hesitant movement in the direction of the "potentially global" part of the grid during the next decade.

6.2 Strategic Responses of the Industry Players

This section will report on the respondents' strategic thrust as defined by their position in the grid. Figure 6.5 shows the placement of each firm and indicates five groups of companies, two of which consist of only one company. Most of the groups are placed in the lower left part of the model, in other words, in strategic windows not utterly vulnerable to globalisation trends. In the following, the recommended strategies will be discussed against the observed (as of 1990) strategic intent of the firms.

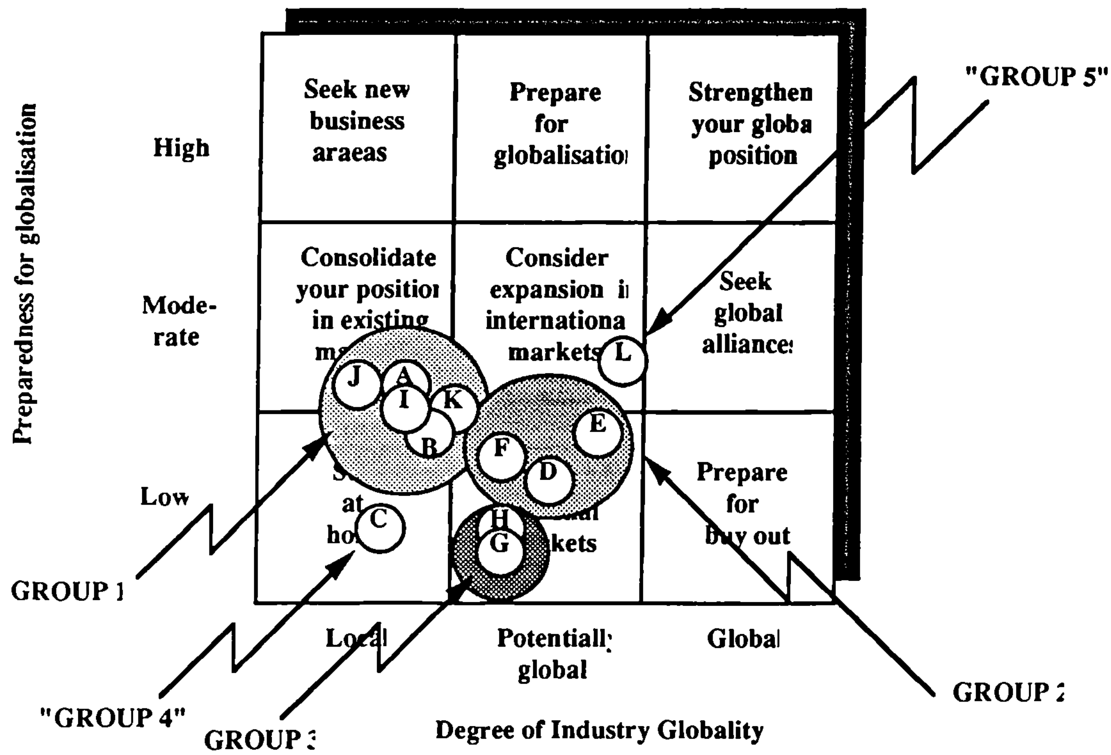

Figure 6.5: Strategic Position of Selected Norwegian Suppliers in the Construction Industry

Group 1

Recommended Strategies

This group consists of the manufacturers of kitchen interiors, components, windows and doors. The companies operate in markets which are characterised by strong national preferences with regard to architectural styles and standards. Even though many of the companies maintain that they are able to adapt their products to the markets without loosing cost competiveness, our contention is here that such preferences still constitute a major barrier to trade. If the costs of adaptation are not insurmountable, the willingness of the firms in these sectors of the building material industry to respond to local needs abroad and to commit resources to international market penetration seems limited. One exception is the kitchen interior industry, where the industry structure appears to be somewhat more concentrated. One interesting feature of the door and window segments is the stringent requirements that must be met by these products to comply with the climatic conditions in the nordic countries, without similar demands being put forward in South Europe. In Scandinavian countries, this constitutes probably a genuine barrier to trade for manufacturers of this kind of products located in South Europe, whereas this kind of barrier to a much less extent is supposed to exist in the other direction.

The companies in this group have a marginal or limited export involvement (<15% of total sales) and expected to neither have the skills nor the organisational culture necessary to develop international business ventures yielding immediate positive results within the next couple of years. However, they have some international experience and the management is characterised by positive attitudes toward internationalisation. Also, they have a good position in their home market, giving them a basis for further international involvement. The recommendation of the model is that companies in this position should focus on a consolidation strategy - maintaining or reenforcing their position in existing markets, both at home and in export markets, rather than actively seeking new ventures. Consolidation at home implies the securing of the foundation of the companies' main source of income, in order to make themselves less vulnerable for potential flaws in future international ventures. Consolidation in export markets involves in this context cementing their position with their main customers abroad and gradually expanding their customer base. It also implies that the companies rationalise their product portfolio and weed out unprofitable products. Key words in this connection are: concentration on one market at the time.

Firms' Strategies vs the Recommendations of the Model

By and large, the companies in group 1 follow the strategies indicated above. Company A - after a period of partly loss-making export involvement in international markets - has now "boated the oars" and concentrates mainly on the situation in Norway, and seeks gradually to get involved in the Swedish market.

Company I is placed in the "corner" of four windows. This implies that the company has several strategic opportunities, the choice of which depending on other factors than those included in the model. This company has gone in for a conservative and stepwise strategy to enter a limited number of markets, all while it seeks to cement its positions in established markets. A cautious and well planned internationalisation is according to the management feasible because of the relatively strong financial status of the company.

Also company K is located in the intersection between different strategic options. The main thrust of this company is to consolidate at home, in order - after a couple of years - to enter into market niches in Europe.

These three companies seem to follow the main ideas of the strategy recommendations given by the model. This is less the case of company B and J. The former is seeking a relatively aggressive internationalisation strategy in neighbouring markets. It has among other things engaged in a joint venture in East Germany, and made some advances in the Japanese market. These strategies do not harmonise with the model's recommendation. The fact that the company during several years have been in the red may be related to the lack of market concentration. Recently new owners have taken over the company.

Also company J has a more active and internationally oriented strategy than its position in the model would suggest. The company has a sound financial base, both in terms of its own accounts, but also with the strengths of its owner (a large holding company). However, with a home market in decline and a weak position in their two export markets - Sweden and the UK, they have opted to enter the German market. The reason given for adopting this strategy, rather than consolidating in its existing markets, may be sought in the opportunities offered by a German partner of the mother company. In spite of this opportunity, management should rather consider developing its thrust in Sweden and the UK: the company seems too small and its management too slim to take on the commitments of servicing yet another market.

Group 2

Recommended Strategies

This group of companies is characterised by the fact that they operate in markets which we term potentially global. Two of the companies (E and D) are in the sawn wood sector. A distinctive feature of this industry is its relatively fragmented structure. Using the taxonomy of figure 2.9, it may be termed an international commodity industry. A further globalisation of these industries may be initiated by the introduction of technological innovations (like CIM/FMS), opening for a more rational operation, leading to scale economies and a restructuring of the industry. Company F is in the engineering and construction works business with a good foothold in the Norwegian market. This company has carried out certain works in less developed countries. In contrast to companies E and D, its position along the globality axis is earned through a third country structure position as described in figure 3.5. Most of the international assignements are carried out in countries outside the Triad. Common for all three companies is that they have relatively small market shares in their export markets and that they do not have a collective international corporate culture which allows big leaps forward in international markets.

According to the model these companies should follow a "slowly but surely" process of internationalisation in limited niches in export markets where they can develop competitive advantages (for instance skills within certain product qualities, common R&D with selected customers, etc). In this way different parts of the organisation will step by step be involved in the international operation of the companies and they will gradually develop an international corporate culture. Such strategies will make them better prepared for a possible development in the industry globality (bid regulations in the EEA and new technologies). Both the improved culture and the established network are deemed to give the companies some "protection" against global players in the market.

Financially, the three companies seem to have a sound position sufficient to take on the strategies as indicated.

Firms´ Strategies vs the Recommendations of the Model

Company E in group 2 has developed strategies which on several items clearly correspond with the recommendations of the model. The management has decided to gradually work closer and more concentrated with a selection of foreign customers, and thereby seek to increase the preferences for their products. However, they do not seem to have any plans to reenforce the management culture of the company. Today the international experience is limited to one person, the general manager. Other members of the management team seem to be more operative than strategic, thus rendering the company vulnerable to changes in the top management.

Company D owns several saw mills which operate independently from each other. The present report concentrates on the largest saw mill unit in the concern. The recommendations given by the model seem to be followed slavishly by the company: it has selected a narrow segment in three countries in West Europe and work persistently to achieve a foothold with a limited number of customers in this segment. The company is owned by a concern which - in spite of positive contributions from the company - the last couple of years have been in the red.

Company F has taken measures to establish a position through joint venture agreements in selected countries in East Europe in order to exploit their specific competencies (building elements) particularly relevant for this area. They have also entered a partnership arrangement with a spanish contractor with regard to exploit their know how in safety measures in tunnel construction. Disregarding a few projects in less developed countries, this is the company´s first *conscious* step toward international markets. Both these strategies may fall within the category: "Seek niches in international markets" and confirm therefore our proposition. Entering into alliances with local partners (in contrast to a globally oriented alliance) is dictated by the problems of doing it alone. The management is deemed to have sufficient international experience through its involvement in LDCs to make such alliance a success. However, the company is also active through its cooperative partners in Sweden and Denmark in general contracting (highways, bridges, dwellings etc). Therefore, it is not a pure niche strategy that is pursued in international markets, rather a double strategy of niche and general contracting.

Group 3

Recommended Strategies

This group consists of two companies (H and G), both within the engineering and construction sector. Both companies are dominant players in the Norwegian market and both have had international engagements, particularly in LDCs. However, these engagements have not led to a conscious attitude toward internationalisation of the firms, indicating a culture of limited awareness of international opportunities within the organisations. This factor, in combination with the fact that their presence in international markets are more or less non existent, suggests that the two companies are placed on the low side of the "preparedness for internationalisation" axis. The difference between company F (in group 2) and the two companies in Group 3 (all three operating in the same market sector) stems first and foremost from this fact. In addition, these two companies (G and H) have been more severely affected by the downturn in the Norwegian construction market, thus reducing considerably their freedom of action in international markets. The model indicates that these two companies seek niches in international markets. The method should be the same as for company F (seek a local partner), but it is recommended that a more gradual approach is taken, implying that the results from one market should materialise before entering a second or a third market. Both companies struggle with bleak economic results and capital structure. Company H seems to be particularly vulnerable in this respect.

Firms´ Strategies vs the Recommendations of the Model

Both companies have been active in world markets in terms of isolated assignments in different markets. The impression of "jumping from one market to another" without seeking foothold in any of the markets entered is conspicuous and clearly in contradiction with the recommended strategies. According to these, companies in similar situations should seek an established foothold in selected markets thereby building network and expertise. None of the two companies have shown sufficient staying power to carry out a long term international niche strategy.

The extent to which they have sought to establish long term market commitments, this strategy has been carried out in markets characterised by great risk with regard to political development, economic stability and/or unknown business culture (Egypt, Ivory Coast, Greece). The immature international corporate culture of these two companies has probably been one of the major factors contributing to the lack of their long term thrust in international markets. Furthermore, in good times in the Norwegian market, the companies were too busy servicing the home market, in stead of allocating resources to systematically prospecting new markets. In years with poor economic results at home - when they would have benefitted from a firm foothold in foreign markets - they lack the necessary resources to build long term niche positions abroad. In stead, they bid on large international projects, where they indeed possess a competence (tunnel work, bridges, hydro energy, etc), but where the competition also is fierce.

One feature of their strategy has been a cooperation with Swedish internationally oriented contractors. Such a strategy is rational from a resource viewpoint (management and marketing network), and leads indeed to assignments abroad. In this way key personnel in project management and administration will acquire invaluable experience with foreign operations. Both companies maintain that they operate with positive results in their international assignments (1991).

However, such assignments obtained through subcontracting to their Swedish partners do not lead to the build up of management skills in strategy development. This latter is deemed necessary when the market moves in a more global direction. The conclusion is therefore that the two companies in group 3 have not followed the recommendations of the model. The extent to which this fact is a major contributing factor to the poor results of these two companies has not been analysed in depth. The key respondants in the two companies admit that "this may well be the case".

"Group 4"

Recommended Strategies

This "group" consists of one company (C), one of Norway's leading suppliers of prefabricated houses. Their international experience is limited (sporadic exports to Sweden) and they do not possess any skills in exporting. Their market share in the reference market is increasing. Many factors indicate local and fragmented markets: different building traditions, nationalistic purchasing practices, competitive structure etc., and there are few signs that this situation is expected to change dramatically in the 1990's.

The recommendation of the model in this case is focus on the home market with consolidation of the company's market position here. This strategic orientation is even more urgently needed, considering the weak financial position of the company.

Firm's Strategies vs the Recommendations of the Model

The strategies of company C are in full concordance with the recommendations of the model. The management is actively developing its field sales force to increase sales, and seems to have succeeded in this endeavour. Furthermore, they have reduced the number of models offered on the market, and thereby managed to considerably reduce costs. Also, they have initiated a programme to team up with both subcontractors and carpenters/builders to improve the cost control.

However, the management has expressed visions about playing a role in international markets "some time in the future". Financial position permitting, the management takes an a proactive stance toward internationalisation of the company. They recognise, though, that time is not yet ripe for considering business ventures in other countries.

"Group 5"

Recommended Strategies

Company L is a large saw mill owned by a concern in the wood working industry in Norway. The company has a solid international experience and competence and exports more than 70% of its total sales. On the other hand, the company has relatively small shares in its reference markets. 3/4 of the output end up in sawn wood to the building sector, whereas the remainder consists of components to serve special segments of the market (e.g. furniture manufacturers). We have seen that the international sawn wood market is dominated by large industry players from Russia, Canada and Scandinavia, operating along with small and locally oriented saw mills.

The placement in the grid ("Consider expansion in international markets") concerns first and foremost the sawn wood segment. This position entails that the company develops its network in export markets so as to cement its existing customer relations and develop its customer base further. A key word in this connection is *reduced vulnerability* against large players in a globalising world. As to the component segment, the company is placed somewhat further down to the left in the model in the "Seek niches in international market" window.

The company has a sound financial basis for its further internationalsition.

Firm's Strategies vs the Recommendations of the Model

Company L maintains its operations in international markets at today's level without seeking to increase the volume. Held up against the advice given by the model, this may seem somewhat passive. However, the management estimates that this market is not moving dramatically to the "right" in the model. In addition, this market is deemed by management to be exceptionnally sensitive of economic cycles, this fact contributing greatly to the decision to diversify into components fabrication. The management therefore seeks actively to develop new segments in established markets, particularly in Denmark and Germany. The competitive structure in these markets are more locally oriented than in the sawn woods market, and the company deliberately seeks selected niches where technical sales support is a critical success factor. This strategy is entirely in compliance with the recommendations of the model.

6.3 Strategy Review

This section describes the main strategic thrust of the companies in the construction industry sample the last three to four years. This industry has during this period suffered a major decline in the home market, a situation which has been aggravated by the sharp downturn in the Swedish market in 1992. The situation in Sweden has had a tripple effect on the Norwegian suppliers: 1) the most important export market has faded away, 2) the ensuing overcapacity in Sweden spills over to the Norwegian and other markets and 3) the devaluation of the Swedish Kronor (and Finnish Mark) have made Norwegian suppliers much less price competitive in international markets than only a year before. This has particularly struck the sawn wood sector of the industry, but also other trades such as windows, doors, laminated components etc. have suffered. The general strategic response by the industry has been to retrench its capacity and at the same time seek new markets outlets. The situation has, however, been partly alleviated by the surge since 1990 in the East German market, in the wake of the reconstruction of the former DDR. Many Norwegian suppliers of building products have found important outlets for their capacity in this particular market.

The next five sections reviews the strategies carried out by the companies represented in the five strategic groups identified in section 6.2 and evaluate the degree of compliance of these strategies with the nine strategic windows. The procedure used to describe the strategic choices of the companies in the ship equipment sector is repeated here, reference being made to letters a-y of question 3.1 in the questionnaire. The questionnaire has not been completed by all the companies because of radical changes in the working conditions of the firms, not being captured by the research design. In these instances the information is based on secondary data (like newspaper articles and annual reports) and telephone interviews with key informants.

Group 1

This group consists of companies A, B, I, J and K in the construction industry sample.

Company A exhibits a dramatic downturn in its activity level the last four years: from a sales volume of 411 to 273 million nkr. in 1992, exports constituting only between 4 and 7%. The financial results of this exercise have been discouraging. While the company still earns some money on its operation (the margin being 1,4% in 1992, down from 5,5% in 1990) its aggregate loss before extraordinary items the last four years amounts to some 30 million kr. Its relatively high equity share of 30% is maintained mainly thanks to intercompany contributions.

It is particularly the markets in Norway and Sweden which are to blame for this decline. The company has sought to offset this shortfall first of all by fastening its grip on the Norwegian market (b, a) and by stepwise entering into new markets (Finland, Greece, Hungary), (d, m). These moves seem to be prompted more by management´s desire to offset the loss of sales due to the gloom in the construction business in Scandinavia, rather than by mature deliberation of export opportunities.

Concurrently with these moves, emphasis has been placed on product development (o). Most of the management focus has, however, been devoted to the internal situation, with emphasis on cost reduction programmes.

The mainspring driving company A's exports is basically its need to diversify its stake to other markets (6d) than the depressed and limited home market (6a). This becomes particularly acute when considering its stake on one of its prime competencies (6c) - its flexible manufacturing systems, necessitating a large base market to render this investment financially sound.

Company B filed for bankruptcy only half a year after the first visit three years ago. It was then taken over by a competitor interested in buying market shares and brand name. Otherwise, the company has been "swallowed" by the acquirer and, hence, does not operate in the market any more. The recommendations from the first report, viz. consolidation rather than expansion in foreign markets, were not being followed.

Company I has pursued a moderately ambitious strategy toward foreign markets. Its export drive stems largely from a desire to capitalise on its competencies (6c) and a desire to capture new impulses for the home market (6f), around 90% of its sales volume still ending in a limited home market (6a).

Its main focus has therefore been on strengthening its position in Norway (b). Its only international involvement is in Sweden where it has established its own sales outlet with 2 employees (n). Emphasis has been placed on customer relations (f) and rationalisation of the manufacturing process. As a consequence, they have been able to turn the order part of total sales from 30% three years ago to 60% today. They have also sporadically been involved in Germany and Britain, although with much less ambition and persistance. Projects in other parts of Europe (eg. Netherlands) have so far been halted, so as to enable full concentration on northern Scandinavia. This is a continuation of its cautious, step by step strategy (d) reported three years ago. As a result, their sales to Sweden increased twofold (from 5 to 10 million kr.) the last four years. Since this company is a non-profit sales organisation for three manufacturers of windows and doors, there is no meaningful profit and loss statement to refer from.

Company J has shown a steady growth of about 50% the last four years, reaching a sales volume of 31 million nkr. The export share of company sales has increased from 40 to 73% during this same period, with a downturn in domestic sales of 1/3. The operating margin fell from more than 10% to around 3%, primarily due to depressed price levels in the home and export markets. The equity share of the company´s capital has all these years fluctuated between 31 and 27%.

Company J´s export motives are primarily its need to diversify its stake to other markets (6d) than the depressed and limited home market (6a), capitalising on its competencies (6c). In concordance with these motives, the company has pursued its strategies defined three years back, with rapid inroad into the German market as its main component (j). This thrust toward Germany has been achieved partly as a result of the appointment of a local sales manager (k), supported by a 50% takeover of a Danish manufacturer of laminated products by the company I´s mother company (p, i). These moves have strongly enhanced company I´s access to the German market; today Germany constitutes its single most important outlet, taking more than 50% of total sales. The company´s stance in other export markets (UK, Sweden), has been to maintain its position rather than promoting any new initiatives to increase sales. In Britain, this has been possible after some difficult start up years through its local British daugther company, whereas its sales in Sweden have been hampered by the serious economic downturn in the country. These drives have been possible only through the financial help of its mother company. On the other hand, the company has been able to implement the marketing strategies without any "external" management assistance of its mother company.

To sum up, the company has carried out very proactive strategies toward foreign markets, more so than its position in the model should warrant. It has devoted great efforts to a stepwise build-up of a strong presence in selected markets (d), and feel comfortable in having achieved this goal. Its position particularly in Germany, and gradually also in the UK seems to be well established, constituting a sound base for further international involvement of the firm.

Company K has also followed a cautious expansion policy in international markets, increasing its presence from one (Sweden) to four (+ Denmark, Britain and Germany) the last four years. Its sales, falling from 835 mill. kr. in 1989 to 537 million kr. in 1992, have substantially suffered from the decline in the building activity in the home market. The last year of this same period, its sales to Sweden have also suffered, whereas exports to other countries have increased. Total exports amounted to some 10% of total volume in 1992.

The main emphasis during this period has been placed on securing market shares in Norway (a), while systematically seeking new outlets (y) in other markets and stepwise developping sales (d) and building new relations (m) to well defined customer groups. These efforts have been supported by a build up of its international marketing organisation, both in terms of improved marketing information systems (t), adding more marketing people at head quarters (l), resulting in increased control of its marketing activities (n).

Also company K places emphasis on its competencies (6c) - a patented locker system for windows, and the smallness of its home base (6a) as the two most important driving forces in international markets. They also seem to take a proactive stance to the business opportunities present in foreign markets (6j).

Summary Group 1

Reviewing the four cases in group 1 gives a varied picture of different strategies and success rates. All five companies have been operating in a situation of home market decline and overcapacity. However, some companies have been able to strengthen their position whereas others have lost ground. There are two common denominators of the two successful companies:

- their focused thrust toward a limited number of markets,

- their ability to retain sales in a declining home market (due to niche operations, and thereby less vulnerability to the general decline in the market).

Two of the "loosers" are both large companies, dominating their home market, and therefore extremely vulnerable to a continued decline in demand. Their export experience is limited and exports have a marginal priority within the organisation. Both these factors - loss at home and limited export dedication - have led to more hesitation and caution when entering foreign markets. Firm B, which filed for bankruptcy three years ago, was at that time pursuing a more ambitious internatinalisation than would warrant its position in the grid or its internal resources.

Two of the companies - A and J - are owned by larger financial groups. This has helped company A to survive in a declining market, through substantial intercompany contributions, whereas company J has been able to more aggressively make use of the mother company in its internationalisation process. Table 6.2 gives a brief summary of the status of each case.

Table 6.2: Summary of Cases in Group 1

Item	Firm A	Firm B	Firm I	Firm J	Firm K
Sales growth 1989-92	(34%)	n.a.	2%	50%	(36%)
Exports 1989-92	2-4%	n.a.	10-10%	40-73%	10-10%
Number of export countries 1989-92	1-1	n.a.	1-1	4-4	1-4
Operating margin 1989-92	5,5-1,4%	n.a.	n.a.	10-3%	n.a.
Equity % 1992	30%	n.a.	n.a.	30%	n.a.
Financial strength	Medium			Strong to medium	
Strategic thrust	Consolidation at home and hesitant export activity.	Firm B was taken over by a competitor after bankruptcy.	Consolidation and focused export expansion.	Consolidation, focused and rapid export expansion.	Consolidation and cautious export expansion.
Assistance from mother company	Intercompany contributions.	n.a.	n.a.	n.a.	Financial support for take over.

Group 2

This group consists of three companies, D, E and F.

Company D, like most companies in the building sector, has struggled hard through the first couple of years in the 1990's. Sales have increased in terms of volume, but stagnated in value terms - ending on 808 million kr. in 1992 - because of depressed prices the last two years. The operating margin has fallen slightly below 0, after a record high in 1990 of 13%. During this period comprehensive rationalisation efforts have been carried out (number of employees has been reduced from 582 to 526, 160 million kr. have been invested in productive equipment, current assets have been reduced by 22%). The group has shown an impressive growth in its exports from its Norwegian units, from 16 to 130 million kr. (more than eightfold). During this process it is assumed that the organisation has "climbed" the interntionalisation ladder in terms of both organisational culture and skills.

The driving forces behind this achievement are first and foremost a desire to capitalise on its competencies (6c) in a broader market, seeking to spread its risk in other geographical area (6d) than its rather limited home base in Norway (6a).

One important feature of their marketing effort is that the seven units of the Group operate individually in the market place. This is deemed necessary in order to achieve close communication between market and manufacturing facilities. They often use the same agents and distributors in export markets. However, the international marketing network is operated on an individual basis by each of the units. These latter have different capabilities between them in terms of qualities and end user needs covered, even though they in some instances do compete. Qualities requested, but not being covered by one of the units, are passed over to the relevant "sister" in the Group. Whenever a competitive situation between sisters arises, the head quarter operates as an "arbiter" and coordinator.

The marketing strategies adopted may be described in one sentence: Systematic (y) and stepwise build-up (d) of close relationship (f) with critically selected customers (g) in a limited number of countries (d), primarily in Western Europe. It is also noteworthy that the Group is increasingly aware of the role of market positioning toward competitors in general and in the in the EU in particular (j,u).

Company E has also suffered from the downturn in the building sector, showing a sharp decline in 1991 sales of 14%. In 1992 the company recaptured some of the lost sales, albeit with negative operating results (-1,7%). Its equity has been varying between 24 and 15% the last three years. In 1992 the ownership of the company was reshuffled, bringing in two forest owners´ associations as minority shareholders and increasing the share capital (the equity share of total capital being brought back to 24%). At the same time this new constellation took over another neighbouring saw mill. The objectives of these moves have been to:

1. Strengthen the capital base of the company,
2. Lay the foundations of a more rational operation, whereby the responsibility between the sister saw mills have been divided according to their productive capabilities and in this way increase the productivity of the operations.

The predominant export motives of company E have been to seek a broader market base (6a) for their competencies (6c), positioning themselves in Europe (6i). The marketing strategies during this period may be described in two words: consolidation and reinforcement. Consolidation has been carried out through cementing their position in the home market (a) as well as nurturing their relations with customers and distributors abroad (f). This has been made possible by an enlarged marketing organisation, whereby the export function has been strengthened by one full time export manager (l). As we have seen, the company has also been reinforced by an injection of new capital together with a more rational division of responsibilities between herself and its new sister company (h, p).

Company F has been one of the few successful Norwegian contractors in an otherwise gloomy home market. Sales have increased from 2.4 bill nkr. to 3.7 bill nkr. during the last four years (1989-92), with a slightly declining operating margin - from 4,4 to 2,6%. Much of this increase is due to four take overs/part take overs (60%) of other contractors in the review period, completing a list of 12 mergers since 1982. As a consequence, the equity ratio has been declining, but is still at a sturdy 26%.

International projects carried out over the last four years by company F include bridge construction and housing estate development in Sweden together a Swedish partner, airport in Iceland, concrete elements manufacturing in Poland, general contracting in Tanzania through a joint venture company, a joint advisory project in China (with among others company H in our sample). Since April 1993 company F has joined forces with other Norwegian contractors - company H (see below) and a state owned power engineering and contracting company. The aim of this joint venture is to penetrate large project tenders in international markets - particularly in developing countries. The joint venture is not incorporated and will be limited to hard rock tunnel works (most often related to hydropower generation development schemes).

Company F follows a strategy of active internationalisation, although the general impression is that they still are pursuing too many different leads in too many markets, without a clear vision of getting entrenched in specific geographic areas; with one exception: the concrete element manufacturing unit i Poland. This activity seems to be driven by the "spirit of adventure" and seeking opportunities in growth markets rather than by the need to counter any international competition. Also it is carried out in another sector than the public work sector which is the prime area of study in this particular case. However, the experience from this activity is expected to settle in other parts of the organisation.

Summary Group 2

Taken into account the extremely difficult market conditions in the home market, it is fair to say that all companies in group 3 have fared relatively well, exhibiting growth or stagnation. Company D in particular has pursued a very persistant, and systematic approach to achieve a foothold in foreign markets. This has been possible only through financial support by the mother company. Company E has broadened its ownership base and merged with a local competitor, and taken measures to strengthen its export operations. Both these companies have more or less fully adhered to the recommendations of the model.

Table 6.3: Summary of Cases in Group 2

Item	Firm D	Firm E	Firm F
Sales growth 1989-92	0%	(4)%	52%
Exports 1989-92	49-66% (11-59%)*	37-40%	4-8%
Number of export countries 1989-92	13-15	5-6	
Operating margin 1989-92	8-0%	5-(2)%	4,4-2,6%
Equity % 1992	49%	24%	26%
Financial strength	Strong, but mother company is weak	Medium	Medium
Strategic thrust	Stepwise and systematic selection of customers in export markets, relation build-up.	Consolidation of customer relations and cautious export expansion.	Consolidation and acquisitions at home; Gradual expansion in (too?) many markets. Local JVs; export group in hard rock tunnel work.
"Assistance" from mother company	Large loans from mother company	Increase of equity, additional owners	n.a.

*Export shares of Norwegian operations in parentheses

Group 3

This group consists of two companies, G and H, one of which (G) was taken over by company F in 1990, shortly after the conclusion of our last interview in the first round with their management. Company G has since then been completely merged with company F, and does no longer exist as an independent business unit. The next paragraphs will therefore concentrate on the analysis of the situation of company H.

Company H has since the last part of the 1980's struggled with ownership problems, compounding the financial challenges that the company has been fighting as a consequence of the downturn in the home market. Its sales volume has shrunk since 1988 from 6.900 million nkr. to 3.600, with operating margins around 0% the last four years. The equity share of the capital has over the same period been seriously deteriorated - from 11% in 1988, to negative figures in 1990 and 91, and has now climbed to a positive figure in 1992 - 1‰.

Over the last four years international projects have been terminated and only a few new projects have been initiated during a process of rationalisation and slimming. In fact, the company had incurred heavy losses on some of its international projects, resulting in negative attitudes - particularly in the finance department - toward further commitment to international markets. International expertise and experience built up in the company have as a result been gradually eroded. However, they have decided to reenter international markets mostly driven by unsolicited approaches by potential customers, market opportunities and the desire to exploit its competencies in a larger market.

The company has some particular competencies in harbour construction and hard rock tunnel work. In the international market place, this arena is dominated by large, internationally experienced contractors, often located in Britain and France, who through colonial bonds have achieved a preferential position in many markets. Therefore, it has joined forces with other Norwegian contractors - company F (see above) and a state owned power engineering and contracting company - in order to gain more credibility in international markets, particularly in connection with large tenders from international organisations like development banks or the United Nations Development Program. The joint venture is not incorporated and will be limited to hard rock tunnel works (most often related to hydropower generation development schemes).

Concurrently with this joint venture, each partner may independently market its other services. For instance, company H has recently entered a letter of intent with a Chilean partner to offer their expertise in harbour development. They have also entered into similar projects in other parts of the world (the

Kola peninsula, Gibraltar, Mozambique). Even though these particular projects may be considered to lead the company in to an international niche, neither these last projects, nor the "hard rock" joint venture are considered to fit the recommendations of the model. The reason for this is that the company is still prone to "jumping from one tussock to the other" in international markets, not being able to get entrenched in a new geographically defined market area. Leaving the responsibility to a joint venture secretariat does not seem to give the hard rock activity the necessary organisational weight for it to succeed, in which case it will hardly contribute to build within the organisation an understanding of the intricacies of exporting. The effect on the organisational learning of company H is therefore likely to be limited.

Table 6.4: Summary of Cases in Group 3

Item	Firm G	Firm H
Sales growth 1989-92	-	(27%)
Exports 1989-92	-	2.3-6.0%
Number of export countries 1989-92	-	n.a.
Operating margin 1989-92	-	1-1%
Equity % 1992	-	1‰
Financial strength	-	Weak
Strategic thrust	-	Consolidation in a declining home market. "Jumping from tussock to tussock" abroad. Export group in hard rock tunnel work.
"Assistance" from mother company	Merged with company F in 1990.	n.a.

"Group 4"

An ever shrinking building market with high interest rates and post-ponement of housing starts have jeopardized the relatively expansive plans of the one company in "Group 4", **Company C**. At first the company carried out an expansive deployment of its sales force in order to recapture market shares after the restructuring of the company in 1989-90, only to retrench a couple of years later because of continued decline in the housing market, and ensuing strain on the firm´s liquidity. The result was - after a voluntary composition with its creditors - a take over by three of these latter, two property companies and one major subcontractor. The work force was reduced from 130 to 100 people (down from 210 four years earlier), and unprofitable sales offices in Norway were laid down, reducing costs by some 25 million kroner last year.[18] Finally company D had to file for bankruptcy in July 1993.

At the outset the company was indeed following the strategies suggested by the model: cost reductions and reenforcement of its relations with both suppliers and the market. However, the activity level prepared for was incommensurate with the continued fall in the market. Tempted by the growth in the East German market, they joined the bandwagon in order to chase volume, even though they lacked both the financial and managerial strengths. The company has recently (August 1993) been taken over by one of its main competitors in Norway. Table 6.5 summarises the situation of company C.

Table 6.5: Summary of Case in "Group 4"

Item	**Firm C**
Sales growth 1989-92	*
Exports 1989-92	0-0%
Number of export countries 1989-92	0-0
Operating margin 1989-92	*
Equity % 1992	*
Financial strength	Weak
Strategic thrust	Ambitious (too) expansion and consolidation in declining home market.
"Assistance" from mother company	Fresh capital and new owners

[18]Source: Stavanger Aftenblad, 15th of June, 1993.
* 1992 annual report not available

"Group 5"

This "group" consists of only one company (L), a sawmill located in Sweden, but owned by a Norwegian holding company. The company is regarded as being the most internationally developed one in the construction industry sample, with exports holding an increasing share of sales, from 70 to 75% in the review period, mainly as a result of lower sales volume in its home market. Total sales have varied from a low 260 mill skr. in 1988 to a high 400 mill. skr. in 1990. Last year sales attained around 380 mill. skr. The operating margin has shown a declining trend the last three years, ending at a negative 1,5% in 1992, a result of the gloomy Swedish market that year. However, the company has remained financially strong, with an equity share of around 50% of total capital.

This company was advised to take an aggressive stance toward further internationalisation, including the possibility of aquisititions in foreign markets. It is the only company *not* complaining about the size of the home market (being located to Sweden - which is basically double the size of Norway - may constitute one important explanation) when asked to specify their export motives. Rather they emphasize factors like need of geographical risk distribution (6d), making the most of their competencies in a broader market place (6c), seeking actively new business opportunities in new markets(6j).

Reviewing their strategies, it becomes evident that they have to a large extent - and contrary to the intentions registered three years ago - followed the directions given by the model, although not by entering into any take-over deals. The most important feature of their strategy seems to be a rapid (e) and systematic (y) expansion to new foreign markets in order to position themselves toward competitors (q, u), primarily in the EU-area (j). In fact, they have increased their presence in a wider geographical area (from 9 to 15 countries), concentrating on a selected number of customers (m). Such a geographical spread is apparently not mandated by competitive pressures, rather company management seems more driven in its internationalisation by motives like capitalising on internal competencies in a broader market area (6d), spreading risks to more countries (6c) and seeking new business opportunities (6j); all three indicating proactive management attitudes to internationalisation. To support this expansion into new markets, they have further built up their market organisation at company head quarters, and further developed their market intelligence system.

However, company L has also taken steps to further augment their customer base in their home market (b). Another hallmark of the last three years is the increased emphasis on product development (o).

Table 6.6: Summary of Case in "Group 5"

Item	Firm L
Sales growth 1989-92	12%
Exports 1989-92	70-75%
Number of export countries 1989-92	9-15
Operating margin 1989-92	9-1%
Equity % 1992	50%
Financial strength	Strong
Strategic thrust	Rapid and systematic expansion abroad. Further penetration of a declining home market.
"Assistance" from mother company	Has contributed to intercompany transfers.

Chapter Seven
Research Findings

Chapter Seven
Research Findings

In this chapter the advanced propositions are tested against the findings. This task is not a straightforward one, since the interpretation of the case protocols and of the follow up rounds lends itself to subjectivism. The author may easily fall into the trap of "stretching" the data in a desired direction, thus influencing the result of the pattern matching. The author is well aware of this danger, and endeavours to steer clear of such "temptations".

After the testing of the propositions we will endeavour to answer the major research questions put forward in the methodology chapter: "How can SMBs survive in an ever globalising world economy?" and "Is any one strategic choice leading to better results than another one?"

The chapter is organised as follows:

1. Part one will group the cases according to their appurtenance to the different propositions (multilocal, potentially global, global market situation; SBU/SMB).
2. The outcome of each case will then be confronted with the expected outcome as stated in the propositions. Then follows a discussion of why the propositions are confirmed in some instances, and why they are rejected in other.
3. The discussion will then be completed and answers offered to the main research questions put forward in the study.

7.1. Classification of Cases

The first proposition concerns companies that find themselves in the multilocal stage of the model. Virtually all of the cases found in this position belong to the construction industry. One of the ship equipment companies (F) is located on the borderline between "multilocal" and "potentially global", basically because of its ability to carve out a niche in markets isolated from globalisation drivers (like Chile). This case will be classified and discussed under P2. Table 7.1 gives an overview of the referred companies. Companies belonging to the construction industry are denoted "c", whereas companies in the ship equipment industry have received the affix "s".

Table 7.1 Companies in a Multilocal Position

Construction industry

A=	Ac
B=	Bc
C=	Cc
I=	Ic
J=	Jc
K=	Kc

Ship equipment industry

(F=	Fs)

P2 deals with companies in the potentially global position in the grid. The majority of the cases are located in this competitive situation - and we find companies from both the construction and ship equipment industries. Table 7.2 lists the companies in this group.

Table 7.2: Companies in a Potentially Global Position

Construction industry		*Ship equipment industry*	
D=	Dc	A=	As
E=	Ec	D=	Ds
F=	Fc	F=	Fs
G=	Gc	G=	Gs
H=	Hc	H=	Hs
L=	Lc	K=	Ks

P3 deals with companies operating in a global industry, all belonging to the ship equipment sector. Three companies in our sample (B, C, I) belong to this group, all of which are borderline cases - between the potentially global and global industry. Table 7.3 shows the companies in this category.

Table 7.3: Companies in a Global Position

Ship equipment industry

B=	Bs
C=	Cs
I=	Is

P4 concerns the position of independent SMBs as opposed to SBUs of larger companies. Table 7.4 categorises the companies into the two groups.

Table 7.4: SMBs and SBUs of the Sample as of 1990

SMBs	*SBUs*
As	Ac
Bc	Cs
Bs	Dc
Cc	Ds
Ec	Es
Fc	Gs
Fs	Hc
Gc	Hs
Is	Ic
Jc	Lc
Kc	

7.2 Testing of Propositions

Before passing on to the actual testing, it is appropriate to repeat the propositions. The result of the testing is then presented subsequently to each proposition.

Proposition 1:

P1.1: SMBs operating in an industry structure categorised as multilocal will tend to secure their positions in existing markets, rather than expanding into new markets. The major reason for this strategic focus is that they have not the necessary preparedness for internationalisation, nor are they challenged by globalisation drivers to venture into new markets.

P1.2: SMBs in this position (multilocal) who nevertheless do engage in international markets, do so by a stepwise approach, and are more driven by internal motivations than by external pressures. Such motivations may derive from elements of international corporate culture within the firm, a relatively strong position in the reference market (usually the home market) and/or a preferential access to international customers (for instance through the international network of the mother company).

Table 7.5 summarises the features of the companies in this group

Table 7.5: Proposition Testing of the Companies Operating in Multilocal Industries

Company	*Group*	*Strategy features*	*Results*	*Test*
Ac	1	Consolidation and hesitant export activities. Driven by need to spread risk. Hard hit by downturn in home market	Low return on sales Dramatic decline in sales	Consistent with proposition
Bc	1	Export expansion to Germany and Japan. Exports to Sweden. Driven by need to spread risk. Hard hit by downturn in home market.	Bankrupt in 1990. Taken over by competitor.	Proposition rejected.
Cc	3	Concentration on home market through (too) rapid expansion. Hard hit by downturn in home market.	Ownership reshuffles and negative returns on sales. Bankrupt and taken over by a major player in the industry.	Proposition partly consistent.
Ic	1	Consolidation at home; stepwise and focused export involvement. Driven by need for impulses.	Return on sales not known. Stagnating sales.	Consistent with proposition.
Jc	1	Consolidation at home; rapid and focused export expansion. Driven by need to spread risk. Financial support from mother company for take over in Denmark.	Positive, but declining returns on sales. Rapid sales increase.	Proposition partly rejected and partly consistent
Kc	1	Consolidation at home and cautious export expansion. Driven by market opportunies. Hard hit by downturn in home market.	Return on sales not known. Dramatic decline in sales.	Consistent with proposition.

Of the six cases in category 1 four were either fully or partly confirmed in the test of proposition. The one that was entirely rejected (Bc) was pursuing a too ambitious export activity, not commensurate with its management and financial resources. Also this activity was not necessary considering the multilocal stage of the industry development. The other one (Jc) that we placed in a "middle position" - partly rejected/partly confirmed - has exhibited traits of consolidation at home ("Consolidate your position in established markets") and at the same time, rapid export expansion, even though neither their internal financial resources, nor the managerial resources, nor external pressures would warrant any such venture. This venture has been made possible by two factors:

- Active exploitation of the mother company´s sales network in Germany

- Financial support by the mother company for the take over of a Danish manufacturer of similar products, with an extensive network in Germany.

These factors may be interpreted as enhancements to the company's "Preparedness for internationalisation", thereby "pushing" the company upwards in the "Nine strategic windows" model, toward the upper left window: "Enter new business". If this is the case, one may conclude that the company strategies comply fully with the propositions, new business being defined as penetration of the German market. However, the scarce management resources of the company still leave us with a question mark: when the building boom in Germany eventually fades away, will then other demands than merely the ability to deliver be made on company Ic, entailing the need for more management follow-up? It seems as though the company will need to attract more managerial expertise in order to cope with the new challenges ensuing from the export activities they have ventured into. At that time, one may conclude that the company actually has reached the "high preparedness" stage.

One case, company Cc, is partly confirmed. This company has indeed stayed at home as the model prescribes, but has within this strategic thrust sought to expand their sales to an extent that was too aggressive relative to the general market situation.

Summing up the analysis, it seems that the major contention of P1 is fairly well demonstrated by the six cases in our sample. The general strategic thrust of companies at the multilocal stage of the horizontal axis is consolidation. The limited export activities deployed by these companies are more motivated by a desire to spread risk, than by any external force (ei. globalisation). Those cases which do not comply or only partly comply with the propositions have either entered into financial trouble (Bc and Cc), or received support for their expansion from a mother company (Jc).

Proposition 2:

P2: SMBs operating in markets that are labeled potentially global, seek actively to expand their activities in international markets. The less they are prepared to expand in new markets, the more they tend to seek well defined market niches, so as to "shelter" themselves from competition by large multinational firms. The main motivations for these strategic moves are preemptive - in order to capture a positition in key markets before risking to be defencelessly "swept out of" the home market as a consequence of the globalising competition.

Table 7.6 summarises the features of the companies in this group

Table 7.6: Proposition Testing of the Companies Operating in Potentially Global Industries

<u>Ship equipment industry</u>

Company	*Group*	*Strategy features*	*Results*	*Test*
As	1	Consolidation in established markets and systematic export expansion. Limited home market prevailing motive for exports. Fear of competition not conspicuous. Marketing reorganised after take over in 1992.	Sales increase. Increasing returns on sales.	Consistent with proposition.
Ds	1	Consolidation in established markets; stepwise, but rapid export expansion. Opportunities abroad more prevalent than fear of competition. Marketing reorganised after inclusion of As in the "family" in 1992.	Vigorous sales increase. Increasing return on sales.	Consistent with proposition.
Es	3	Consolidation, rapid export expansion and JV in Japan. Fear of competition not predominant, but pervades its strategic actions (3.1 e).	Sales increase. Stable, comfortable return on sales.	Consistent with proposition.
Fs	1	Consolidation and new product development. Internal export motives predominate.	Stagnating/declining sales. Return on sales around zero.	Partly consistent with proposition.
Gs	3	Consolidation abroad, acquisition in UK and competitive positioning. Taken over by a company with complementary products. Motives appear internally driven, but fear of competition pervades its strategic actions (3.1 q).	Stagnating sales (US market). Declining return on sales.	Consistent with proposition.

Table 7.6 continued

Com-pany	*Group*	*Strategy features*	*Results*	*Test*
Hs	1	Consolidation and focused export expansion. Both internally driven, but also reactive export motives (unsolicited approaches).	Doubling of sales. Declining (to negative) return on sales.	Partly consistent with proposition.
Ks	3	Consolidation, active export expansion and competitive positioning. Competitive pressures constitute an important motive for export expansion.	Moderate sales increase. Moderate and declining return on sales.	Consistent with proposition.
<u>Construction industry</u>				
Dc	2	Rapid export expansion through stepwise and systematic selection of customers in foreign markets. Relations build-up. Risk diversification predominant motive, but competitive positioning important strategic element (3.1 j, u).	Stagnation (decline in Norway), but export share from 49 to 66% (11 to 59%). Declining return on sales.	Consistent with proposition.
Ec	2	Consolidation of customer relations and cautious export expansion. EC positioning important motive.	Stagnating sales. Declining (to negative) return on sales.	Consistent with proposition.
Fc	2	Growth through acquisitions in home market. Exports through strategic partnering in local markets. Entering (too?) many markets. Entered a cooperative venture in 1993 to promote exports of hard rock tunnel work.	Positive return on sales and increasing sales in a declining home market.	Proposition partly rejected partly consistent.
Gc	3	No systematic export activity prior to merger in 1990.	Merged with Fc in 1990	Proposition rejected.
Hc	3	Jumping from "tussock to tussock" in international markets. Entered a cooperative venture in 1993 to promote exports of hard rock tunnel work.	Sharp decline in domestic sales, positive export development. Low return on sales.	Proposition partly rejected.
Lc	5	Systematic and focused export expansion. Spreading risks and opportunity seeking are prevalent motives. Competitive positioning important.	Moderate sales growth. Declining return on sales.	Consistent with proposition.

The proposition is considered to have been confirmed or partly confirmed in all the seven ship equipment companies. Two of these (Fs, Hs) were partly confirmed, and will be commented on in somewhat more detail. Company Fs is a borderline case (between multilocal and potentially global) and may be driven to a greater extent by the multilocal forces, than by the more global forces underlying P2. In fact the company exhibits a cautious stance toward internationalisation, concentrating on relations build-up and consolidation, rather than the more expansionist strategy expected in the potentially global industry position. Even though the company is in the same industry as companies As and Ds, it is located more to the left in the model because of its ability to carve out dominant positions in markets like for instance Chile, thus operating in a more isolated marketing environment.

Company Hs is placed more univocally in the potentially global position of the model and would therefore be more prone to develop management attitudes exhibiting greater concern about competitive pressures than is actually the case. One possible explanation for this apparent lack of concern is the fact that company Hs is a leading player in the market, itself initiating industry restructuring strategies.

Cases As and Ds are deemed to be fully confirmed, even though their motives do not pervade the expected concern about the effect of globalising competition. The reason for this stance is believed to be the location to the left in the "window", indicating that any change in the competitive structure toward a more global industry is not considered to be overly imminent.

In the construction industry, three (Dc, Ec, Lc) of six cases are outright confirmed. A fourth case (Fc) is partly confirmed and partly rejected, whereas two cases (Gc, Hc) are rejected. One of these (Gc) has been merged and totally assimilated within Fc.

These three latter cases are all in the contracting industry, bringing up the question whether the recommendations in the model do not fit this particular industry or whether the players in this industry have adopted ill conceived strategies. The very nature of the public work part of the industry is a typical "third country industry", with international competitors bidding on the same tenders in third countries, but not in each other´s countries. Therefore developing and former Comecon countries are typical customers for this kind of contracting work. However, once the work is terminated in these countries, large new contracts are seldom awarded and the contractor will have to seek other markets. One may therefore say that the real customer of these companies are not necessarily local authorities benefitting from the projects, rather it is the organisations (UN, development banks etc.) financing the projects that are the long term "customers" and where the companies should endeavour to position themselves. Therefore, this industry is by nature one where the players seldom get an entrenched market position in specific countries.

Whether this is a desirable situation remains to be seen, and the alternatives have still to be discussed. Both company Fc and Hc have in fact entered into some arrangements constituting interesting alternatives to the "tussock-jumping" strategies of international project contracting. Company Fc´s operations in Poland (manufacturing unit) and company Hc´s joint venture in Chile (hard rock tunnel work) are two examples of engagements that imply long term commitments in the respective markets by the two companies. We believe that the long term aspect of market presence is of critical importance: it is "only" through long term involvement that the companies achieve a recognised market position in foreign countries, and that they are capable of building a market know how enabling them to further penetrate the market. The relations between the different players - authorities, estate developers, architects, subcontractors etc. - in local markets, and the specific subcultures that develop around these relations, seem to be one key element which make foreign entry so difficult in this particular industry.

These factors seem to constitute important reasons why foreign entry seldom is crowned with success in the general contracting industry. The above strategies (in Poland and Chile), may well be classified "Niches in international markets", and imply therefore traces of confirmation of the hypotheses - more so in company Fc who seems to take a more conscious stance to exporting than company Hc. However, management in both companies seem to be pervaded by the entrepreneurial spirit of seeking projects for their competencies, the result of which is "chasing the wrong customers" (eg. large international projects) rather than defining a niche for their competencies where they can operate comfortably with local partners.

As a conclusion, it appears that all but one of the seven ship equipment companies in the potentially global position comply with the recommendations given by the model, following strategies that may be termed expansionist, seeking new markets at the same time as consolidating their existing customer relations. The exception (Fs) is a borderline case which may qualify for entry into P1, rather than P2. The three saw mills also seem to comply fairly well with the model. However, it also appears that the expected concern about the growing competition characteristic of potentially global industries is not a common feature. Rather, the export expansion seems to be motivated by an *internally generated* desire to exploit own competencies in a broader market.

The two remaining contractors constitute cases that do not confirm or only partly confirm the proposition. Indeed, they show traces of niche seeking in international markets, some of which seem more coincidental (hard rock compentencies to Chile) than planned. Still, the main thrust of their strategic activities is motivated by a "hit and run"-spirit rather than by a long term vision of their role in selected international markets.

Proposition 3:

> P3: SMBs who find themselves in global markets are more likely to seek strategic partners with a position in international markets. In the case of firms with low preparedness for internationalisation, the partner will tend to acquire the firm. In the case of higher preparedness, the partnership is more likely to be based on other arrangements, such as joint ownership of specific SBUs, cross-ownership, joint project development ventures etc.

Although the author at the outset - by definition - did not expect to find any of the cases in this part of the model ("SMBs do not operate in global markets"), three companies that are competing in global markets, or soon to be global markets have been identified. Table 7.7 summarises the conclusions from these cases:

Table 7.7: Proposition Testing of the Companies Operating in Global Industries

Company	*Group*	*Strategy features*	*Results*	*Test*
Bs	2	Consolidation at home, stepwise export expansion; acquisition abroad. Deepening of SA. Competitive threat not a motive.	Moderate to good sales growth. High return on sales.	Consistent with proposition.

Table 7.7 continued

Cs	4	Consolidation and rapid expansion. Extensive project search and product development. Preemptive positioning, although competitor pressure not prevalent motive.	Moderate to good sales growth. Return on sales stable at 3-4%.	Partly consistent with proposition.
Is	2	Consolidation and rapid export expansion. New owners, with good technology base.	Vigorous sales growth. Return on sales around 0.	Consistent with proposition.

All the three cases are confirmed or partly confirmed. The latter case is represented by company Cs, posturing in fact a higher level of preparedness for internationalisation than presupposed for SMB/small or medium sized independent SBUs in section 4.2. The position of company Cs is in fact between "Seek global alliances" and "Strengthen your position in global markets". As stated in section 3.2, companies in this position should adopt both preemptive (securing competitive positions) and proactive strategies (seeking new products, technologies etc). We have seen that company Cs pursues these strategies, but that they do not consider entry in the Japanese market. This is the home ground of their biggest competitor and should be a natural entry object for company Cs, given their strategic position (Ohmae, 1985; Hamel and Prahalad, 1985; Kverneland, 1988). Also the export motives emphasized (for instance small home market, impulses to the "Norwegian" strategy) reveal that the company may not yet have entered the "adult" part of the global industry.

As a conclusion, we assert that SMBs or small and medium sized SBUs of larger companies not only operate in global industries, but also may play a dominant role in certain segments of global industries. The strategic thrust of companies in this position is one of consolidation in world markets - through partnering with companies having access to marketing networks (Bs) or with companies securing the financial and technological strength of the partner (Is), or through independently strengthening its position (Cs).

Proposition 4:

P4: Small and medium sized SBUs of larger concerns will be in a better position to venture into globalising markets than independent SMBs. The main argument for this proposition lies in the fact that large concerns often have developed an international network and thereby an awareness of threats and opportunities in the international market place indirectly benefitting the "preparedness for interantionalization" of the smaller and more inexperienced SBU. The lack of cash flow because of minor market shares in the reference markets is also partly compensated by the supposed financial strength of the mother company.

There are several avenues to analysing the concept of "better position to venture into globalising markets". In the present context this concept is discussed in three different ways:

- degree of independence/support
- sales growth and financial performance
- export growth and export dependency

Independence/support

Starting with degree of independence of the companies and degree of support needed in order to cope with the globalisation forces, table 7.8 portrays the development in the period 1989-1992 of the individual SMBs and the SBUs in the sample as to these two dimensions.

The table demonstrates that SMBs and SBUs alike need support from time to time. The reasons for this, vary of course considerably. In some instances (almost all the cases in the construction industry - except company Jc) the situation in the home market is the main source of concern. In other cases the reason may be one of "third generation syndrome" (company As), which indeed is an SMB-specific factor, impeding the comapny´s strategy adaptation to globalisation forces. Considering the companies in globalising industries (bold), it is noticeable that all the SMBs but one have remained independent, even those which have been acquired by competitors/other companies. The exception (Gc) was taken over by a competitor for reasons other than global competitive forces. One may therefore conclude that SMBs or small and medium sized SBUs of larger concerns may maintain their independence in globalising markets.

Table 7.8: Independence of SMBs and Support from Mother Companies During the Review Period.[19]

SMB	*Remain independent*	*Merged/Bankrupt*
Ship equipment	**As*, Bs, Fs, Ks, Is***	
Construction industry	**Ec, Fc, Hc*, Ic, Kc**	Bc, Cc, **Gc,**
SBU	*Not supported*	*Supported*
Ship equipment	**(Cs), (Ds), Es, Gs, (Hs)**	
Construction industry	**Lc**	Ac, **Dc, Jc,**

Sales growth/financial strength

We have also analysed the combined financial strength and relative sales growth of the case companies in order to evaluate the degree of success under different market environments (from multilocal to global). Financial strength is defined in the methodology chapter, whereas relative sales growth is estimated on the basis of the arithmetic average sales growth of each industry sector giving an average growth of 5% in the construction industry and an average growth of 73% in the ship equipment sector in the four year period 1989-92. Companies Ic and Kc are not rated financially and are therefore not included in this analysis. Table 7.9 recapitulates the position of the sample companies on each of these two dimensions.

[19] **Bold indicates companies operating in global or potentially global industries.**
*Companies As and Is have been acquired by other companies in the industry, and Hc has been taken over by banks, but their operations remain independent. They have however, at varying degrees received support from their respective mother companies to carry out their strategies. (Parentheses indicate that intercompany contributions have gone both ways, or - in the case of company Cs - that the company has not received financial support, but benefits in some other way - limited support in "political" markets - from ownership by mother company).

Table 7.9: Sales Growth 1989-92 (%) and Financial Performance

Ship equipment			*Construction industry*		
Company	*Sales growth*	*Financial performance*	*Company*	*Sales growth*	*Financial performance*
As	37	Weak	Ac	(34)	Medium
Bs	50	High	Bc	-	Bankrupt
Cs	68	Med/Hi	Cc	-	Bankrupt
Ds	114	Weak	Dc	0	High
Es	46	Medium	Ec	(4)	Medium
Fs	(7)	Medium	Fc	52	Medium
Gs	5	Medium	Gc	-	Acquired
Hs	95	Medium	Hc	(27)	Weak
Is	300	Weak	Jc	50	Hi/med
Kc	21	Medium	Lc	12	High
Average	**73**			**5**	

Figure 7.1 gives an overview of the combined financial and sales performance of the sample companies.

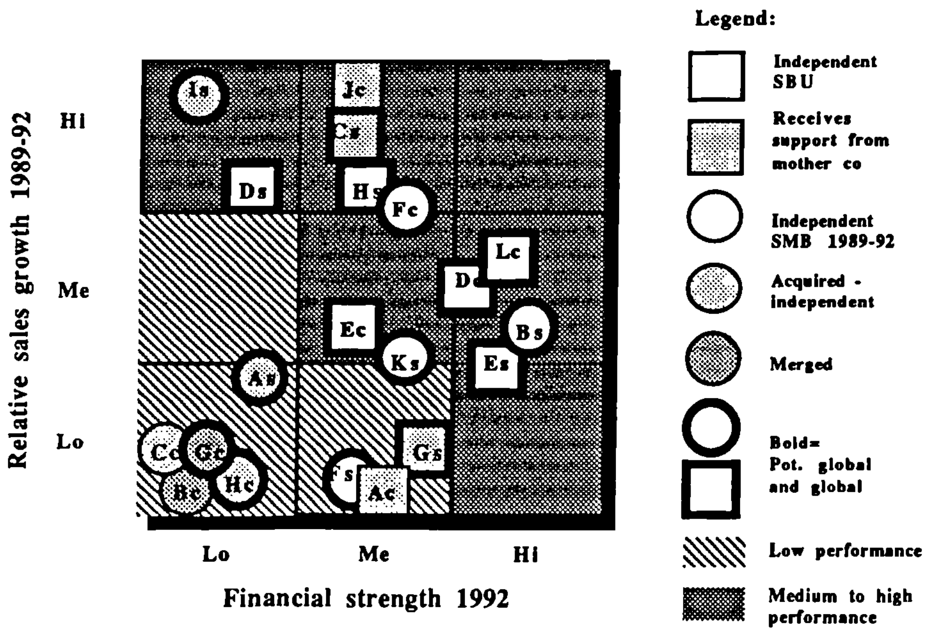

Figure 7.1 Financial Strength and Relative Sales Growth of Case Companies

The three companies in the construction industry being acquired/having filed for bankruptcy (Bc, Cc, Gc) have been placed in the low end of both dimensions, presupposing poor performance records.

We retain the following features of figure 7.1:

- Out of eight case companies classified as financially weak, six ones were SMBs in 1989, all of which have changed the ownership status during the review period. Some of these companies have still remained operationnally independent (As, Hc, Is).

- Seven out of ten companies that display a lower than average sales growth in the review period, were SMBs in 1989, two of which (Fs, Ks) maintained their ownership structure. Two others (As, Hc) have maintained their strategic and operational independence. The remaining three companies (Bc, Cc and Gc) are merged/bankrupt and have ceased to operate as independent companies.

- Sixteen case companies operate in a global or potentially global industry. Three among these companies - all being independent SMBs in 1989 (As, Gc, Hc) - have combined low sales growth and low financial strength. One other SMB (Fs) is a borderline case (negative sales growth, medium financial strength).

These findings may indicate that independent SMBs have a harder time coping with international competition in globalising markets. However, we also find independent SMBs in the more "pleasant" part of the diagram (Fc and Bs, and to some less extent Ks). One may therefore conclude that even though this part of the diagram is predominantly occupied by more or less independent SBUs of larger companies, it is indeed possible for SMBs to successfully operate in globalising industries.

Do the three successful SMBs exhibit different strategic features or comply more rigidly with the advanced propositions (P1-3) than the four SMBs rated unsuccessful (low sales growth and financially weak) - As, Fs, Gc, Hc? Table 7.10 shows the strategic thrust and degree of confirmation to P1-3 of each of the six case companies. (We have not included company Gc, as this company was taken over by Fc as early as 1990).

Table 7.10: Strategic Thrust and Confirmation of Proposition of Successful and Unsuccessful SMBs

Independent SMBs

	Firm Fc	Firm Bs	Firm Ks
Strategic thrust	Consolidation and acquisitions at home; Gradual expansion in (too?) many markets. Local JVs; export group in hard rock tunnel work.	Consolidation at home, stepwise export expansion. Acquisition abroad. Deepening of SA.	Consolidation, active export expansion and competitive positioning.
P1-3	Proposition partly rejected partly consistent.	Consistent with proposition.	Consistent with proposition.

Unsuccessful SMBs

	Firm As	Firm Fs	Firm Hc
Strategic thrust	Consolidation and systematic export expansion.	Consolidation and new product development.	Consolidation in a declining home market. "Tussock jumping" abroad. Export group in hard rock tunnel work.
P1-3	Consistent with proposition.	Partly consistent with proposition.	Proposition partly rejected.

The immediate impression is that the differences between the two groups are difficult to discern. There is an overweight of fully confirmed cases in the successful category, but the pattern is too erratic to allow any firm conclusions to be drawn.

When considering the strategic thrusts more closely it appears that company Hc is deemed to have developed ill-adopted strategies to cope with the challenges of international markets (the "tussock-jumping" strategy). Furthermore company Fs has taken a too modest stance if compared to the recommendations of the model ("(Consider) expansion in international markets"). However, company Fs is a borderline case in the model and may do well in consolidating its customer relations. Yet, the company lags far behind its competitors (among these, As and Ds) in sales development, and may risk to fall in a capacity utilisation trap (high fixed costs per unit) in markets where they meet these and other firms (home market and a limited number of other markets).

The case of company As appears more ambiguous, as the strategies seem well adopted to the challenges met in international markets. The weak financial position of this company stems from the combined effect of a downturn in both its major markets (offshore and fishing vessels) and its wish to maintain a competent engineering staff in the late eighties. The sales growth of company As is below average of the ship equipment industry, but is still 37% over the four year review period.

Export growth/export dependency

One may contend that "better position to venture into globalising markets" also implies sales performance in international markets. The concept of relative export performance of a sample company is in this context defined as being the combination of export share and export growth during the review period relative to the other sample companies in the same industry. Hence, sales in the domestic market are excluded from the calculations. One may allege that the home market is indeed a part of the global market, and particularly so in globalising industries. However, both the challenges of internationalisation and the sharp downturn in the Norwegian construction market during the review period, makes a case for the analysis of the international sales performance as such. Table 7.11 shows the performance in this respect of the companies in the two industry groups:

Table 7.11: Export Performance 1989-92 of the Sample Companies (%)

Ship equipment			*Construction industry*		
Company	*Export growth*	*Export share*	*Company*	*Export growth*	*Export share*
As	108	68	Ac	57	4
Bs	3	70	Bc	-	-
Cs	51	84	Cc	-	-
Ds	72	79	Dc	71	56
Es	72	75	Ec	36	34
Fs	(7)	56	Fc	12	23
Gs	(9)	76	Gc	-	-
Hs	175	63	Hc	27	18
Is	290	85	Ic	50	11
Ks	17	70	Jc	155	74
			Kc	5	9
			Lc	4	65
Average	**77**	**72**		**46**	**33**

Combining these two factors gives the following picture (see figure 6.2).

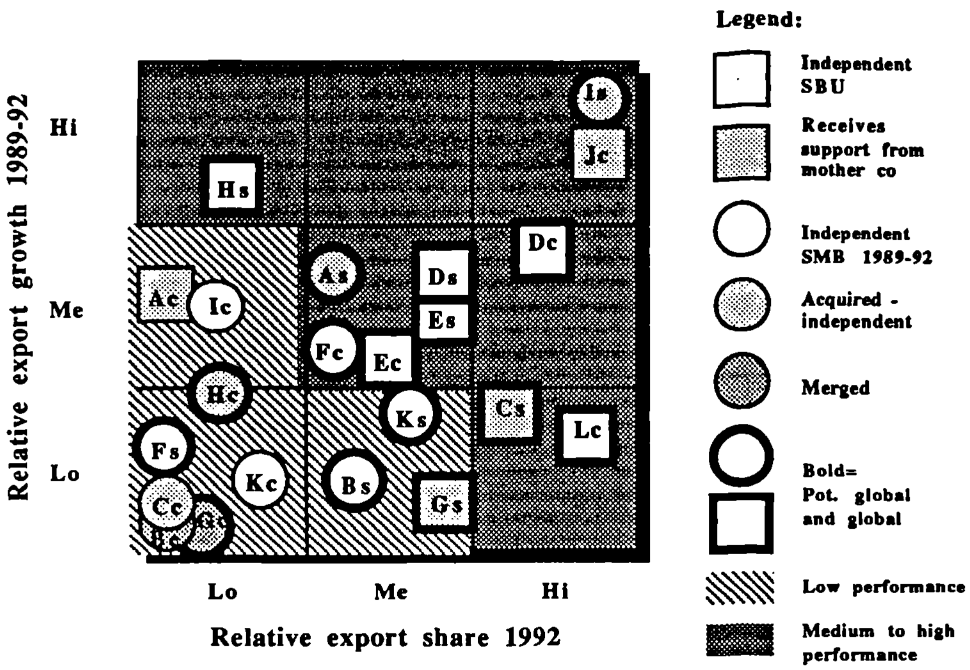

Figure 7.2: Relative Export Performance of Sample Companies

Companies Bc, Cc and Gc have been located in the low part of the diagramme even though they do not exist as such to day. One may say that these companies have had a poor record in both respects, both before and during the reviw period. However, they have not been included in the averages in table 7.11.

Figure 7.2 identifies eleven companies as poor export performers, nine of which are (were) SMBs. Eleven companies are classified as medium to high performers. Of the three original SMBs in this group, two (As, Is) have been acquired by larger concerns during the review period. Singling out now the sixteen companies operating in globalising markets, we see the following pattern:

- Among the eight original SBUs, only one (Gs) is performing poorly during the review period. The poor performance is primarily due to a sharp decline in its major market, the US.

- Three of the eight original SMBs have fared well according to this classification, three of which have been taken over by a larger concern/new owners, while maintaining their operational independence. The remaining five SMBs are categorised as poor performers; only one of these (Gc) has been acquired during the review period.

These findings suggest that belonging to a larger concern is - if not a preriquisite - so at least a great advantage when operating in globalising markets. However, judging from the extent of support from mother companies, there is scarce evidence that supported companies fare better in globalising markets than those which do not receive any support: of the eleven medium to high performers (both SBUs and SMBs), only one SBU (Cs) has received some kind of consistant support (through its membership to a large multinational concern, implying support in regulated "political markets"). It has been shown that one of the successful SMBs (Is) depended on new ownership structure for their spectacular export performance during the review period. The remaining successful SMB was acquired (As) and has only partly depended on its mother company for their performance in international markets.

7.3 Summary and Conclusions

This section gives a brief summary of the testing of the propositions and seeks to answer the two research questions put forward in section 4.2: 1. "How can SMBs survive in an ever globalising world economy?" and 2. "Is any one strategic choice leading to a better result than another one?".

7.3.1 Summary of the Testing of the Propositions

The main purpose of the present thesis has been to test the propositions derived from the "Nine strategic windows" model. Table 7.12 presents a summary of the findings relative to P1-P3.

Table 7.12: Summary - Testing of Propositions P1-P3.

	Multilocal (P1)		*Potentially global (P2)*		*Global (P3)*		***Total cases***
	Ship	Construct	Ship	Construct	Ship	Construct	
Confirmed cases	-	3	5	3	2	-	13
Partly confirmed cases	-	1	2	-	1	-	4
Partly rejected and partly confirmed cases	-	1	-	1	-	-	2
Parly rejected cases	-	-	-	1	-	-	1
Rejected cases	-	1	-	1	-	-	2
Total cases	-	6	7	6	3	-	22

The main conclusion to be drawn from table 7.12 is that the findings are basically consistent with P1, P2 and P3. Of the 22 classified cases about 3/4 (13 consistent and 4 partly consistent) exhibited the expected outcome in terms of strategic responses to industry globality. Three cases were rejected or partly rejected, all of which displayed below average performance in terms of financial/sales performance and company independence. Two cases were classified as partly rejected and partly consistent. One of these is company Jc which, benefitting from the mother company´s financial and network resources, was able to adopt a far more aggressive international stance than expected. The other case was company Fc, which has developed both "consistent strategies" and "rejected strategies".

Also proposition 4 is supported in the present study: we may conclude that SBUs of larger concerns appear more prone to develop viable strategies in globalising markets than independent SMBs. 16 of the 22 case companies operate in globalising markets, half of which are classified as SBUs, the other half as SMBs as of 1989/90. Irrespective of the performance criteria used (export performance or general sales/financial performance) it can be concluded that seven of the SBUs have achieved average or above average results. Company Gs´ poor performance on both set of criteria relates more to the very difficult market conditions in its major market rather than to an ill conceived strategic thrust.

Among the eight SMBs that compete in globalising markets, three (but not the same ones - depending on the set of criteria) may be termed successful or conditionally successful and five fall in the less successful group.

Examining these latter (the less succesful ones) we find that one (Gc) has been merged with a competitor, and two other ones have been acquired by other companies (As) or dramatically changed the ownership structure (Hc), all while retaining their operating and strategic independence. A fourth SMB (Fs) - a relatively small family owned company - has remained independent, but has lost shares in key markets. Bs - unsuccessful on the export performance criterion - struggles with dominant competitors in important and "politically protected" markets like Germany or Britain (defence industry), without obtaining the same protection at home.

7.3.2 SMBs in Globalising Markets

Through the testing of the propositions it has been revealed that it is indeed possible for SMBs to operate in globalising markets, even though the successes seem rarer than among SBUs of larger concerns. Among the three successful SMBs referred to above, only one is successful on both set of criteria: the company (Fc) operates in a "potentially global" market environment and is not so well prepared to meet globalising markets. It follows two different lines of strategies: one of project search in many markets (which is *not* recommended by our model), and one of concentration on a narrow niche in selected markets (i.e. Poland/Germany). It needs to be added that much of the reason for the success of this particular company lies in its ability to steer clear of the problems caused by a home market in sharp decline.

Two other SMBs perform at or above average on the sales growth/financial set of criteria. One of these (Bs) competes in global markets and have long experience in international operations. This company pursues a complex strategy of strategic alliances, stepwise expansion abroad mainly through acquisitions, (recommended by the model). The other one (Ks) finds itself in a potentially global market with above average capabilities in entering international markets. It is actively positioning itself in the home ground of its major competitors, well aware of the competitive perils in its home market as a consequence of the enlarged European market (indicating full compliance with the model).

Another conclusion is that even small or medium sized companies may play a dominant role in global markets. In our sample, one company (an SBU of a large multinational concern) has carved out a leadership position in several key markets *without* really depending on the resources (marketing network or product development) of its mother company. However, it is believed that this company has benefitted from the impetus of its mother company in what we term "political" markets (telecommunications).

7.3.3 The "Nine strategic windows" - A Normative Model?

It has been demonstrated that it is possible for SMBs to successfully enter globalising markets, even though SBUs of larger concerns generally seem to fare better in similar strategic situations. Let us now consider the second research question: to what extent does the model ("Nine strategic windows") suggest viable strategic directions to company management? To this end one can recur to simple chi^2 analyses of the two categories - SMBs and SBUs - using different sets of success criteria: sales growth/financial strength and independence/support. The export performance criterion has *not* been used to analyse compliance with the model, as this is not necessarily a success criterion in a *multilocal* industry.

This exercise cannot be anything but a rough indication of possible relations, given the very complex nature of relationships between conduct and performance, and the fact that we have concentrated on broadly defined strategic issues rather than on specific factors which may in each individual instance have a great impact on performance - whichever way it be defined. Still this discussion casts light on the paramount issue of strategic alternatives for SMBs in globalising markets.

Figure 7.3 shows the distribution of the sample companies in a two by two matrix, the dimensions being degree of confirmation of propositions 1-3 and degree of sales/financial performance. (Companies Ic and Kc are not included in this analysis as we lack relevant financial data). The arrows attached to companies Fc and Jc indicate that these two companies may be classified in either of the two categories: confirmed/rejected. The calculation gives in the two cases a chi^2 value of 5,29 and 1,14 respectively, indicating a significant difference between the groups at a 0.10 level in the first case, and a non-significant relation in the second case.

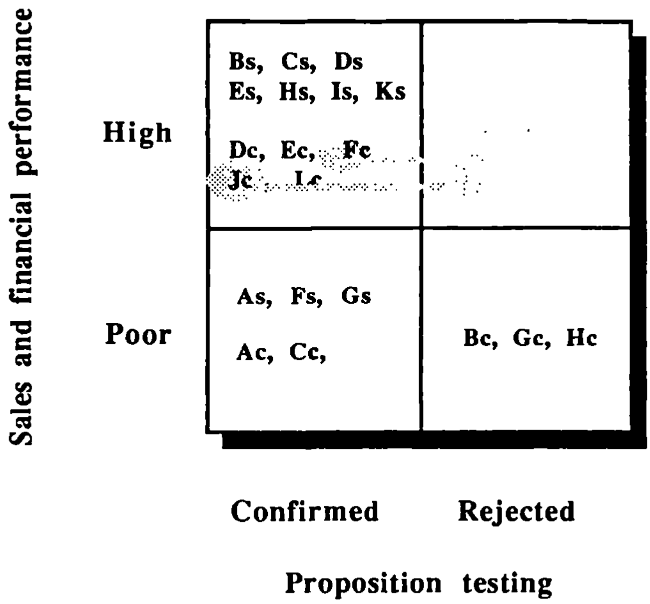

Figure 7.3: Relation between Confirmed Cases and Company Performance

Turning now to another set of evaluation criteria, figure 7.4 displays the relation between the degree of confirmation and the degree of independence of the sample companies. In this case we have also carried out two sets of analysis, as companies Fc and Jc still occupy two different locations in the grid. In addition, we have alternatively transferred Is and Hc to the "dependent" category, as these two companies - even though operating as independent players in the market - have to a great extent been dependent on its owners for their survival. Company As may also be considered a supported company, in the wake of the merger with its existing owners. The analyses give chi^2 values of 7,48 (significant at a 0.10 level) and 3.15 (not significant at 0.10 level).

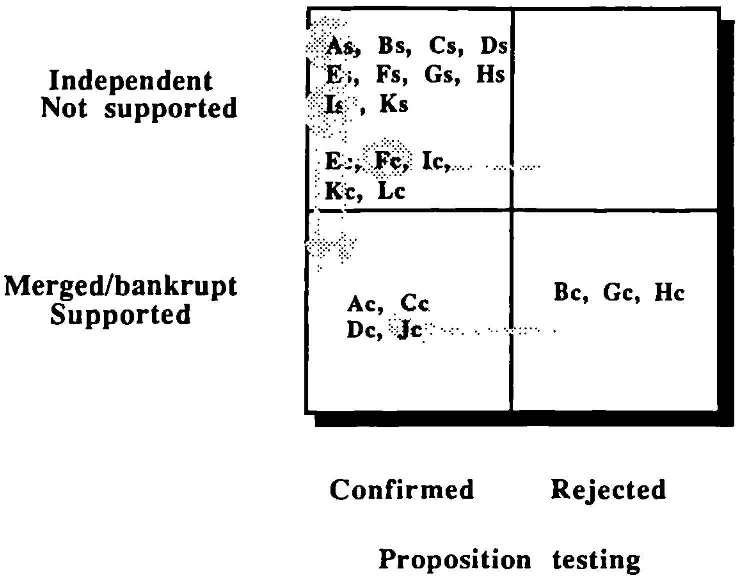

Figure 7.4: Relation between Confirmed Cases and Company Independence

These findings suggest that following the recommendations of the model (confirmed cases) may be a necessary, but not sufficient condition, for maintaining company independence or sales/financial performance. An analysis of the confirmed/unsuccessful or supported cases is therefore warranted. Table 7.13 indicates some key factors explaining the lack of success/need for support of the relevant confirmed cases.

Table 7.13: Critical Factors Explaining Poor Performance of Unsuccessful or Supported Confirmed Case Companies

Company	*Critical Factors*
a. Poor sales/financial performance	
As*	Unwillingness by company management to reduce the core competency of the company, its engineering staff, in times with low demand has lead to erosion of the company's capital base and poor profits in the late 1980's.
Fs	International sales is a typical "one man show" carried out by the general manager, constituting a serious management "bottleneck".
Gs	Sharp downturn the last three years in their main outlet, the US market.
b. Merged, bankrupt or supported by mother company	
Dc	Hard hit by downturn in domestic market, the company benefitted from intercompany contributions during the last four year period.
Jc	Very active in export markets with positive results, possible only by financial support of mother company. The export expansion for which it

Table 7.13 continued

	received support is the very reason why this company alternatively is identified as a rejected case.
Is*	The company had a very poor starting point in the late 1980's after several years of mismanagement. Therefore they needed financial support to survive.

c. *Both poor sales/financial performance and merged, bankrupt or supported*

Ac	Market leader in Norway, the company was hard hit since late 1980's by the recession in the domestic market, and also in their main export market, Sweden, last year.
Cc	The company has been through several ownership restructuring changes the last five-six years as a consequence of financial problems. The new management has not been able to overcome the financial impasse by aggressive sales campaigns in a declining home market.

* As and Is may be grouped in the merged/supported group, but operate to a great extent independently of their owners.

Summing up these findings, one may divide the above eight companies into three groups:

1. Companies operating with poor financial results or needing support in spite of their compliance with the model, because of some kind of financial or management "heritage" of the past (As, Is, Cc).

2. Companies meeting dramatic market decline during several years in their major markets, unable to readjust their main strategic thrust in the short term (Ac, Dc, Gs).

3. Companies (Fs and Jc) which for some other reason do not comply with the basic recommendations of the model. Fs seems to lack both the financial and managerial resources to follow up on the more expansive part of the recommended strategies; Jc is able to carry out much more aggressive strategies than suggested because of support from mother company.

As a main conclusion, it appears that the basic recommendations of the "Nine strategic windows" give the correct guiding signals to management in its endaevour to meet the globalisation challenge. However, the model seems to overplay the importance of competition as a major factor driving company strategy development. Rather, it is suggested that the more proactive elements of the globalisation process - factors like exploiting opportunities in the market, or desire to capitalise on own competencies in a broader market - play a dominant role in the internationalisation of firms operating in globalising markets. This may surprise some observers as competition has been so much in focus both among academics (Porter, 1986; Hamel and Prahalad, 1985) and among practitionners for instance in the wake of the agreement on the European Economic Area (EEA). One may say that the model "overdramatises" the effect of globality; the necessity to expand in new markets to counter competition is not as imminent as the model prescribes. On the other hand, the findings underscores the conclusions drawn by researchers belonging to the "Uppsala school" of incremental internationalisation, alleging that proactive export motives prevail in the more mature phases of internationalisation (Johanson and Vahlne, 1977;Piercy, 1981, Seringhaus and Rosson,1990).

Chapter Eight
Conclusions and Implications

Chapter Eight
Conclusions and Implications

This closing chapter is divided in four sections: in a first section the conclusions of the study are related to other relevant strands of writings. Then, in section two, implications for both firms and government will be considered, and in section three the experience with using the model in practice is discussed. Finally, the author will discuss the organisation of a possible follow-up project, where the hypotheses lying behind the "Nine strategic windows" are to be tested in a more positivist spirit using a broader sample of companies. Also other research avenues ensuing from the present study will be suggested.

8.1 Conclusions

The present study develops and tests a model, the "Nine Strategic Windows". The purpose of this model is to aid company management in its search for strategic direction in international markets. We have seen that the findings of the study are largely consistent with the propositions derived from the model.

The strength of the model is primarily that it draws on several strands of theory and therefore is apt to capture a more comprehensive perspective of the firms´ strategic options in globalising markets. In contrast to for instance the internationalisation school of thought, the model takes account of the competitive environment of the company. The stepwise approach taken by this strand of writings does not satisfactorily make allowance for external factors and therefore it misses an important factor in its explanation of internationalisation patterns. This is particularily true in the more global part of the matrix. Companies embarking on the internationalisation path in this situation are particularly vulnerable to competitive pressures from large, global players, and seem to have few chances to develop independent strategies.

Moreover, even though the x-axis of the model is based on the concept of strategic groups and intraindustry trade, the model differs from the writings on these strands of theory in that it includes the behavioural aspects of the firm in its internationalisation process. Indeed, international strategy development of firms is more than responding to competitive situations in the international market place, and to respond by gradually "carving out a position" in a strategic group. It also involves a gradual development of the firm´s organisational capabilities to respond to these situations. Here, the internationalisation school of thought gives useful insights into the alternatives from which a firm realistically can chose, given the limitations of its organisation.

The "Nine Strategic Windows" endeavour to capture both the competitive and the learning aspects of international strategy development by combining these strands of theory. Furthermore, the model concludes with a normative strategy recommendation based on both the lessons learnt from the internationalisation school, the "global management school". The model therefore offers a richer framework for analysis of international strategies.

Also, the "Nine Strategic Windows" model distinguishes itself from other models (for instance those of Nordström and Vahlne, 1985; Johanson and Mattson, 1986; Porter, 1986; Rugman and Verbeke, 1993) in that it not only tries to classify companies in different strategic positions, but actually attempts to identify the main the strategic thrusts of companies. Another important feature of the model is that it encompasses the situation of small to medium sized firms operating in globalising markets. The fate of this category of firms has previously not been the object of study relative to global markets.

8.2 Implications for Firms and Government

The present study has analysed two industry sectors, ship equipment and construction industries, which in both cases seem to have reached a level of globalisation where few dramatic changes will occur during the next five years or so. Indeed, these industry sectors are exposed to globalisation drivers, like standardisation and common public purchasing procedures in the Single Market and the EEA, possibility of increased international activity by key players, technological innovations etc. These forces will impact on the development of the industry structure in the longer term. However, few major changes are expected to "disturb" the main competitive forces in terms of the present framework in the short to medium term for the two sectors reviewed. The ship equipment firms operate mainly in potentially global and to some extent in global markets, whereas the firms in the construction industry are positioned more in the multidomestic/ potentially global part of the model.

It has been asserted that SBUs of larger concerns have better chances to succeed in potentially global and global markets (and to remain independent of their mother companies) than SMBs. However, it does not follow from this that SMB´s are devoid of possibilities to successfully operate in globalising markets. The present study has, indeed, identified three cases of SMBs successfully operating independently in this challenging marketing environment. On the other hand, the challenges confronted by SMBs seem more demanding, both in terms of finance (as was the case of company Is) and in terms of marketing network.

This implies that SMBs should adopt strategies that are less aggressive, enabling them to gradually develop the organisation and to absorb the learning effect. One important consequence of such a stance is that SMBs to a larger extent are expected to develop narrow niches in the international market place where they can carve out a leadership position, thus contributing to the formation of strategic groups different from those occupied by the major players. Another question is of course for how long time the SMB with a leadership position in a niche will "be allowed" to stay independent by potential acquiring global firms. In fact, one such possibility has already been alluded to (the French shareholder of firm Bs, a large multinational company).

It has also been demonstrated that the majority of the sample firms in such a context are more opportunity-driven in their response to industry globality and globalisation forces than "fear"-driven (fear of competitive attack). Furthermore, we have seen that firms *not* exploiting market opportunities risk to loose out in terms of both market share and profitability (cfr firm Fs).

These findings therefore suggest that management of SMBs in similar situations should take a proactive stance to international markets in order not to lose momentum in their struggle for improved earnings. This is what in essence is suggested by the windows in the middle of the model: "Seek international niches", "(Consider) expansion in international markets", and "Prepare for globalisation".

The way in which expansionist strategies should be carried through is a matter of management's ability to exploit firm specific situations, like for instance management experience and capacity and financial resources. These factors have been found to have a mixed to significant impact on for instance choice of entry mode (Eramilli and Rao, 1993 and 1990; Agarwal and Ramaswami, 1992; Chu and Anderson, 1992; Gomes-Casseres, 1990 and 1989). The model says little of entry modes (except for global alliances). However, management of SMBs should carefully consider the effect of mode choice on the long term internationalisation of the firm. For instance, Solberg (1992) has shown that experimental exporters entering into cooperative alliances locking up the long term strategic alternatives of firms have been precluded from independent operations in world markets or, in some cases, benefitting from the commitment-feedback loop described by the Uppsala school. One important finding of the present study in this context is that in none of the cases it has been deemed necessary to internationalise in big leaps by for instance linking up to strategic partners with world wide networks in order to preempt a potential competitive attack. Therefore, one conclusion may be that management of firms (and especially newcomers) in international markets should rather try to develop their international expansion strategies by a stepwise "Uppsala" approach in an organic way, whereby the learning process is initiated and nurtured.

Nevertheless, one case of successful, aggressive internationalisation without the embedded organisational devotion to and understanding of international operations, has been recorded in the present study (firm Jc). The managing director of the firm has been the one to take on the main work load to carry out these strategies, other parts of the firm taking only indirect part in this process. This was carried out with the financial support of the mother company and through local independent distributors, the latter ones performing most of the marketing activities. This shows that in the short to medium term, it is possible to embark on a rapid path to internationalisation through third parties (financial support/distribution network). The question remains, however, how the the managing director will devote company resources in order to ascertain the anchoring of the customer relations, market information feedback loops and operative marketing experience throughout the whole company.

The study also asserts that - if the firm should position itself vis-à-vis the competition - this needs not necessarily be in Europe. The key issue for Norwegian managers operating in globalising industries is not to carve a position in Europe; rather it is to secure a position in the home ground of its most ardent competitors (Hamel and Prahalad, 1985). In the ship equipment industry, this appears to be a particularly important conclusion, as much of the competition originates from Japan. Thus many firms in this industry are confronted with another challenge, that of cultural barriers to trade which take years of operations to understand and to overcome.

From a government perspective, at least two important conclusions may be drawn:

1. SBUs of larger concerns by and large maintain their strategic and operative independence. From time to time there is a heated debate in the wake of foreign acquisitions of Norwegian companies (Freia - Phillip Morris). The concern that management will be centralised to the acquirer´s head quarter seems, however, to be highly exaggerated. Therefore it seems meaningless to impose strict regulations on takeovers by Norwegian and foreign firms alike. All the original 10 SBUs have maintained their independence, and some (Ac, Jc, Cs, Gs) have fared better thanks to support from the mother company. In three take over cases (Bc, Cc, Gc) the companies have been completely integrated with the acquirer. However, in two of these cases the firms had already filed for bankruptcy. Three other cases of takeover (Hc, As, Is) are examples of acquisitions where the new owners have given relativeliy "free hands" to the management, even though they have indeed played a key role in the strategy development. The key point here is that SMBs may under new ownership

within a large concern continue to nurture their own organisational and management culture. Furthermore, international owners is present in only one of the cases (Cs). In this instance, the SBU has been granted the "world responsibility" of the product group by the mother company, and in this way constitutes an important member in the web of intercompany management culture deemed critical to the kingdom´s international competitiveness.

2. Another conclusion is that Norwegian authorities should be careful when planning their export promotion schemes, especially those entailing exporter groups. The competitive threat posed by a globalising industry varies greatly from one firm to the other. The present study demonstrates that not "all" Norwegian firms should rush in to European markets in order to counter a possible, but not yet manifest development in the competitive environment. In spite of this, Norwegian authorities invite firms of all types to join the bandwagon and stimulate such ventures through part financing schemes, presupposing some kind of cooperation between firms in order to create a "strong" group. According to the author, this is a particularly ill conceived use of public funds, enticing firms into not only marketing operations, but also cooperative ventures which they are not yet mature to tackle. Nor does the competitive situation always warrant such steps abroad. A better way in international markets in a multilocal market situation is to go step by step in the "Uppsala" way, whereby the company matures into the situation.

8.3 Experience with Using the Model in Practice

This section discusses the experience acquired in using the model. First comments are made on the measurement of some of the concepts of the model. Then an evaluation of the strengths and weaknesses of the model is given.

The author´s experience in using the model underscores the importance of discerning between the state of the globality and the globalisation drivers. In the former it is the specific structure of the industry that is the object of analysis. The analysis of industry globality does not entail the study the process leading to the state. Rather, it is essential to define a measure of the extent to which the industry structure makes competitors in different local markets mutually interdependent in international markets, and the extent to which the individual firms are vulnerable to foreign competition.

Analysing the globalisation drivers, however, calls for a thorough understanding of the forces at work. These forces are first and foremost the following:

- Technological development
- Access to capital sources
- Political decisions
- Development of industry and customer structure

An important area which in this study only has been touched on summarily is the influence of the supplier and customer structure of the industry. It is fair to assume that this factor will play an equally important role in the industry globalisation in the years to come. Oligopolisation of suppliers and customers in international markets will sooner or later force the companies to think globally and develop global strategies as a response to this situation. Such a development is already in the making in the retail trade, where large national companies either establish their own networks in foreign countries or enter into cooperative ventures with retail chains in other countries, in order to achieve a leverage with the large MNEs in this field. The analysis of this factor could for instance be based on Porter ´s (1980) model where relations between the firm and other actors in the market (competitors, potential entrants, substitutes suppliers, customers) are analysed.

It is also appropriate to evalute the applicability of the model in practical strategic work within firms. There are three important advantages in using the model:

- It is relatively easy to communicate the basic idea lying behind the grid. Therefore it may be used in decision contexts of others than specially trained experts.

- It encompasses critical parts of the strategy of the firm, and will therefore be applicable in most companies, be they firms serving business to business markets or the food and nonfood sectors, or be they vendors of product or services. The focal factors are on the one hand competitive structure, market access and the effects of scale economies; on the other hand the company's position in the market and its international orientation and experience.

- It is dynamic in that the company may relate its perception of a future development of the factors in the model and thereby indicate guidelines to the development of effective strategic responses.

It is also appropriate to point at some weaknesses of the model:

- It is very sensitive for the definition of the critical variables. In spite of the fact that the basic idea lying behind is easy to grasp, it is difficult for an uninitiated person to use the model actively in the analystical phase. (However this is also true for most other management tools).

- Some of the applied concepts are difficult to operationalise. This is especially true to the concept of "reference market" which is particularly critical for the placement of the company along the y-axis. One simple rule of thumb is to define the reference market in relation to the industry globality. If this latter is categorised as "multilocal", it is sufficient to analyse the market shares of the company in each individual market and maybe specially emphasize its position in the home market. If, on the other hand, the structure could be classified as "global", the analyst will also have to take into consideration a broader arena, including the markets where the main competitors are engaged, even though the company itself is not involved in these markets. This analysis is far more complex.

- As a consequence, the concept of market share is also a difficult one, because market share has a different meaning in different companies, according their own perception of their position in the market. One may for instance be a market leader in a niche, and at the same time be dwarfed by large multinationals in a broader market. The extent to which market leaders and nichers compete makes any analysis of the position of the different companies in the separate segments blurred to say the least. One possible way out of this dilemma is to include market presence in the different countries and qualify the presence by way of indicating for instance entry mode (Welch and Luostarinen, 1988) or degree of market penetration (Sölvell, 1987). This factor will translate the concept of "ability to strike in the competitors´ home arena", deemed critical by for instance Hamel and Prahalad (1986) and Porter (1986).

- Further more, the model requires information that the firm not always has at hand. This information (for instance about competitors or competitive structure in international markets) is, however, generally of vital importance for the strategic development of the firm. If the model can contribute to enhance the procurement of such information, this in itself will constitute a considerable progress!!

In the communication with management in the sample firms the author has experienced that one easily takes as a starting point for the analysis the strategy recommendation embedded in the nine strategic windows (the dependent variable) and thereafter positions the firm in the grid. The author has for instance seen that because the firm has a niche product, it is very easy to end up in the niche window; or because one considers the firm´s product to be global, one easily ends up in "Strengthen your global position". This kind of short circuiting may be explained by the rather seductive tone of the recommendations, making it easy to identify oneself with the different strategies suggested by the model. For instance, regarding the strategy recommendation of seeking niches in international markets, niche implies in this context that the company should seriously consider identifying a smaller segment of the market where it can build its market network and international competence. This does not prevent a niche company to be well positioned in its own niche and, therefore, to be located in other parts of the model.

8.4 Avenues for Further Research

This section will describe in general challenges facing future research in this area, and suggest a research project to explore a broader sample of companies.

8.4.1 Research Challenges

It has been established that the main contention of the framework presented in the "Nine strategic windows" is confirmed in 3/4 of the cases studied in the above analysis. It has also been asserted that even though SBUs of larger concerns seem to fare better in globalising markets, independent SMBs may under certain circumstances carve out a position in global markets. However, in chapter three the assertion is made that there seems to be a theoretical void in the lower right part of the model. Furthermore, the ability of firms to maintain operational independence in this position is a critical concern raised in the introduction of this thesis.

The author has not found cases that are unambiguously located in the lower right corner of the model ("Prepare for a Buy-Out"). Two companies in the ship equipment sector (Is and Bs) are the closest ones in this respect: company Is has shifted ownership structure, and company Bs has entered into a strategic alliance with a large French player in the industry. In both instances the companies seem to have retained their strategic and operational independence. The proposition that companies in this part of the grid should enter into some kind of alliance, seems to be confirmed. In some instances, depending on the circumstances (among which the company preparedness for globalisation) this alliance will be tighter (Is) and in other instances it will be looser (Bs). The ability of management to maintain operational independence will among other factors depend on how close the business areas are between the alliance partners: the closer the areas, the less freedom.

Endeavouring to bridge the theory gap alluded to above, it is relevant to introduce both strategic group theories (the x-axis) and theories on internationalisation of the firm (y-axis), juxtaposing contribution on strategic alliances (the strategy content of the cell). Most on the literature within these three areas take an "isolated" stance, covering only one strand. A few articles have occured within parts of this "intersection". For instance Welch (1992), Welch and Joynt (1990) and Solberg (1992) have written articles on export groupings and piggy-back export cooperation, trying to tie in export behaviour research to strategic alliance research. In order to properly cast light on the issues confronting firms in this position, it is necessary to bring in elements from all three strands of literature in a more holistic manner. Having focused on three strands of literature, one runs the risk of excluding other relevant research avenues. One may for example contend that other strategies than strategic alliances would be correct response in the lower right part of the grid, one possibility being to develop international niches. The point here is that researchers run the risk of being constrained in one paradigmatic direction, thereby asking the wrong questions to the issues at stake, and, hence, giving irrelevant or trivial answers (Arndt, 1985). Figure 8.1 illustrates the essence of this discussion.

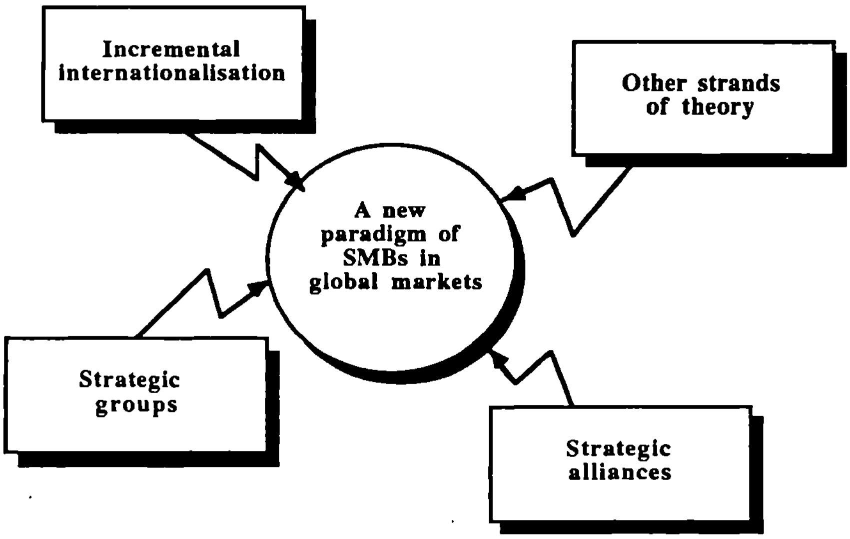

Figure 8.1: A New Paradigm of SMBs in Global Markets

8.4.2 Future Research Projects

Many different research projects may derive from the present study. One obvious project is to carry out more case studies of firms in the lower right part of the model in order to identify how strategies are formulated (both process and content) and to establish a string of research taking into account the "SMB in a global world".

Another possibility is to carry out a study in a broader context than the present one. The purpose of such a study would be to statistically analyse how and to what extent different factors impact on the various dimensions in the framework, and to investigate on a broader basis if the advanced propositions are confirmed in a more general sample setting. In the following, the main issues of such a project will be described.

One challenge facing the researcher within this field is the operationalisation of the variables of the framework. In the present study this problem is solved through personal interviews with managers, during which clarifications and corrections have improved the quality of the analysis. In a larger context, this procedure is not practicably achievable, and the measurement instrument has to be far more precise and unambiguous. In the following an outline to a questionnaire that endeavours to capture the essence of the variables in an unambiguous manner will be presented. It is the intention of the author to carry out an analysis among a larger number of (Norwegian) companies - including both large and small and medium sized firms - in order to

1. statistically test the propositions suggested in the "Nine strategic windows", and
2. stastistically investigate the the weight of the different factors included in the definitions of globality of the industry and preparedness for internationalisation.

The basic content of the questionnaire is outlined in the next paragraphs:

Industry globality

Industry globality is a complex concept and the difficulties of precisely defining the location of the firm on the x-axis stem from the fact that readily accessible information often is scarce. One will therefore have to recur to a host of different variables in order to zoom in on the concept of globality.

Table 8.1 shows the factors which are suggested to be included in the dimension.

Table 8.1: Operationalisation - Industry Globality

Factor	*Criteria for classification* *Multilocal*	*Potentially global*	*Global*
Number of players	Many Fragmented	Some	Few Oligopoly
Market shares of rivals - Rival 1. - Rival ... - Rival n	Small	Medium	Large
Number of markets penetrated - Rival 1. - Rival ... - Rival n	Few	Some	Many/key markets
"One world price"	Prices differ considerably across countries	Prices differ somewhat across countries	Prices are more or less equal across countries
International retaliation	None	Some	Prevalent

FDIs and intraindustry trade have not explicitly been taken into account (see section 2.2.6). The major reason for this exclusion lies in the problems of industry classification in public financial and trade statistics, inherently related to the problems of properly defining the industry. On the other hand, one may contend that these factors are indirectly embodied in number of markets penetrated by each players in the industry.

Giving scores from 1 (multilocal) to 5 (global) on each of the five attributes in table 8.1, each of them having the same weight, will give the following total scores: 5-11=multilocal, 12-18=potentially global, 19-25=global. The advantage of this index is that we are enabled to set up a quasi continuous scale - from 5 (local) to 25 (global). One may also carry out statistical analyses in order to identify only one or two critical variables determining the position on the x-axis.

This construct is again a complex one, with a plethora of different factors impacting on the future development of industry structure. The questionnaire presented here endeavours to capture both demand factors, regulations, development of the industry structure and trade policy issues. Table 8.2 gives an overview of how these factors may be operationalised.

Table 8.2: Operationalisation - Globalisation Drivers in the Industry

Factor	*Criteria for classification*		
	Static	*Moderate*	*Dynamic*
Cultural demand pattterns	Will not converge before 10 years	Will converge the next 5-10 years	Will converge the next 5 years
Legal standards	Will not converge before 10 years	Will converge the next 5-10 years	Will converge the next 5 years
Trade Policy	Will be more protectionist	Will remain the same	Will be more liberal
Partnering/acquisitions	No or few international joint-ventures	Several partnerships across borders expected	Partnering across borders will be a main feature
Technological innovations in the industry	Static	Moderate	Dynamic
Development of the infrastructure	Static	Moderate	Dynamic
Development of customer/ distribution channel structure	Will be more fragmented	Will remain the same	Will be more oligopsonistic

Allocating scores from 1 (static) to 5 (dynamic) on each of the seven attributes in table 8.2 each of them having the same weight, will give the following total scores: 7-16=static, 17-26=moderate, 27-35=dynamic. Also in this case, it is of interest to analyse which ones of these factors seem to carry the decisive weight in determining further development toward a global industry (or in the other direction).

Preparedness for internationalsiation

Table 8.3 summarises the different factors suggested to have an impact on this construct and how they can be operationalised:

Table 8.3: Operationalisation - Preparedness for Internationalisation

Factor	***Criteria for Classification*** *Immature*	*Adolescent*	*Global*
International sales to total sales	0-10%	11-30%	31-100%
Access to key customers/ end users	Limited	Moderate	Good
Number of contacts with key customers/end users per year	1-3	4-10	>10
Market share in key markets - Market 1 - Market ... - Market n	Limited	Moderate	Large
Number of operational methods	Less than three	Three to five	More than five
Type of operational method	Agent, direct sales, distributor	Licensing, sales subsidiary	FDI, J/V, counter trade, etc.
Distance to foreign markets	Neighbouring (nordic) markets	+ European markets	+ Overseas markets

A compounded index including the above factors is one expression of the essence of the dimension "preparedness for internationalisation". One may of course discuss other variables (see for instance Welch and Luostarinen, 1988). However, as we have seen, studies on export performance give at times if not contradictory, so at least inconclusive results (Kamath, Rosson et al 1987). Any "definition" of the concept of preparedness for internationalisation is therefore at best indicative. Allocating scores from 1 (immature) to 5 (global/mature) on each of the seven attributes in table 6.15, each of them having the same weight, will give the following total scores: 7-16=immature, 17-26=adolescent, 27-35=mature.

Strategic content

Finally, the analysis of strategies carried out by the different respondents needs to codified in a proper way. It is suggested to use the framework already used in the present study, in the 1993 follow up round. The question concerning its strategy statements is repeated below.

Table 8.4: Operationalisation of Strategy Content

3.1 Below are listed 22 different strategic orientations. Could you please indicate how well each strategic alternative describes the strategy that your company has followed the last three years?

(1=Entirely adequate description of our strategy; 2=Relatively adequate description of our strategy; 3=Neither adequate nor inadequate description of our strategy; 4=Relatively inadequate description of our strategy; 5=Entirely inadequate description of our strategy).

	Entirely adequate description	*Relatively adequate description*	*Neither adequate nor inadequate*	*Relatively inadequate description*	*Entirely inadequate description*
a. We have consolidated our position within our existing customer base in Norway	1	2	3	4	5
b. We have gradually expanded our customer base in Norway	1	2	3	4	5
c. We have very rapidly expanded our customer base in Norway	1	2	3	4	5
d. We have established a presence in *selected* markets with a view to *gradually* develop sales to well defined customer segments.	1	2	3	4	5
e. We have developed a presence in *many key markets* in order to *rapidly* gain a position relative to our competitors	1	2	3	4	5
f. We have in particular furthered our relations with our existing customers and representatives abroad	1	2	3	4	5
g. Focus has been on a critical review of our customer and product portfolio in key markets	1	2	3	4	5
h. We have actively sought one major partner (abroad or in Norway) with a view to strengthen our capital base	1	2	3	4	5
i. We have actively sought one major partner (abroad or in Norway) who can contribute substantially to our marketing efforts world wide	1	2	3	4	5
j. We have expanded in Europe in order to position ourselves for the Single Market	1	2	3	4	5
k. We have developed a powerful distribution network in key markets	1	2	3	4	5
l. We have developed our marketing organisation at our head quarters in order to better be able to service international markets	1	2	3	4	5

Table 8.4 continued

m. We have established long term and close relations with a selected number of foreign customers in new markets	1	2	3	4	5
n. We have sought to strengthen our control with market activities in the individual export markets	1	2	3	4	5
o. We have invested a lot in developing new products within our traditional business areas	1	2	3	4	5
p. We have actively acquired other companies in our industry to strengthen our market position in international markets	1	2	3	4	5
q. We have actively sought to establish a position in markets where our main competitors are strong	1	2	3	4	5
r. We have actively sought to develop new customer segments for our established technology	1	2	3	4	5
s. We have actively sought to develop new products in unrelated technologies	1	2	3	4	5
t. We have established and furthered an active market information system in order to capture signals about competition and market conditions in key marekets	1	2	3	4	5
u. Possible reactions from competitors in other countries have played a signficant role when developing our international marketing strategies	1	2	3	4	5
w. We have entered into licensing agreements in order to rapidly cover market areas not being served by us.	1	2	3	4	5

This question will constitute the basis for developing strategy typologies in different parts of the model. One possibility is through factor analysis to identify statements expressing the same phenomenon and to analyse possible relations between the factors and the locations of firms in the grid.

It is also relevant to relate financial performance data to the different categories of firms to be identified in this analysis. Even though financial data do not tell the whole story, this kind of analysis may shed light on the performance of firms in different locations in the grid, and eventually on different strategies, and in this way contribute to the understanding of viable strategies in global(ising) markets.

Epilogue

Epilogue

The idea for the present study was conceived some five years ago, when the discussion of the effects of the Single Market was at its very beginning. The impact of the Single Market was said to eventually pervade the whole region - Norway included - through the EEA agreement. The arguments flourished that manufacturers and service companies alike should hurry to position themselves in the EU market so as to preempt competitive attack in the home ground. Particularly vulnerable were the SMBs without international experience. One also pointed at the plethora of opportunities created by this new liberalising market development. In Norway both the Federation of Norwegian Industries and the Norway Trade Council were (and still are) extremely active to enhance the profeciency of Norwegian firms to meet this new situation.

The author - of nature sceptical to "theories" and "solutions" currently *en vogue* - was inspired by this discussion to develop a more nuanced viewpoint taking into consideration not only the company's supposed lack of profeciency in international business management, but also the way in which the forces of deregulation and opening of the Single Market would impact on the competitive position of the *individual* company. This was the embryo of the two axes of the "Nine Strategic Windows", which during the process of the present work has matured into an integrated framework, with contributions from four different strands of literature.

The results of the study demonstrate that that - even though SBUs of larger concerns seem better positioned - SMBs may thrive in globalising industries. This finding is particularly encouraging and should lead researchers to investigate strategies of SMBs in global(ising) markets.

Bibliography

Bibliography

Aaby, N. E. and S. F. Slater, "Management Influences on Export Performance: A Review of the Empirical Literature 1978-88", *International Marketing Review,* vol 6, 4, 1989.

Aaker, D.A., G.S. Day, "The Perils of High Growth Markets," *Strategic Management Journal,* Vol. 7.,1986.

Agarwal, S. and S. N. Ramaswami, "Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors" *Journal of International Business Studies,* 23 (1), 1992.

Aharoni, Y. *The Foreign Investment Decision Process,* Division of Research, Graduate School of Business Administration, Harvard University, Boston, Mass., 1966.

Alchian, A., "Uncertainty, Evolution and Economic Theory", *Journal of Political Economy,* 1950, reprinted in Barney and Ouchi, "Organizational Economics", Jossey-Bass Inc., Publishers, 1986.

Allio, R. J., "Flaws in Porter´s Competitive Diamond", *Planning Review,* September/October 1990.

Andersen, O., "On the internationalization process of firms; a critical analysis", *Journal of International Business Studies,* 24 (2), 1993.

Ansoff, I., "Strategies for Diversification", *Harvard Business Review,* September -October, 1957.

Aquino, A. " Intra -Industry Trade and Inter-Industry Specialisation as Concurrent Sources of International Trade in Manufactures", *Weltwirtshaftliches Archiv,* Vol 114, no 2, 1978.

Arndt, J. "The Tyranny of Paradigms. The Case of Paradigmatic Pluralism in Marketing", in *Research in Marketing*, Supplement 2, JAI Press Inc., 1985.

Bain, J. S., "Barriers to New Competition. Their Character and Consequences in Manufacturing Industries", Harvard University Press, Cambridge, 1956.

Bakka, B., "Internasjonaliseringsprosessen i norsk industri", Paper presented at the yearly business seminar at the *Norwegian School of Economics and Business Administration*, Bergen, 1973.

Balassa, B., *Trade Liberalisation Among Industrial Countries: Objectives and Alternatives*, New York, McGraw-Hill, 1967.

Balassa, B. "Intra Industry Trade and Integration of Developing Countries in World Trade," In H. Gierch (ed.) *On the Economics of Intra-Industry Trade*, Tubingen, 1979

Baldwin, J. R. and P. K. Gorechi, *The Role of Scale in Canada-US Productivity Differences in the Manufacturing Sector*, Toronto, 1986.

Barney, J. B. and W. G. Ouchi (eds), *Organizational Economics*, Jossey-Bass Inc., Publishers, 1986.

Barret, N. J. and I. F. Wilkinson, 1986, "Internationalization Behaviour: Management Characteristics of Australian Manufacturing Firms by level of International Development", in P. W. Turnbull and S. J. Paliwoda (eds) *Research in International Marketing*, Beckenham, Croom Helm, 1986.

Bartlett, C. A., "Building and Managing the Transnational: The New Organizational Challenge", in Porter, Michael E., *Competition in Global Industries*, Harvard Business School Press, Boston, 1986.

Bartlett, C. A. and S. Ghoshal, *Managing Across Borders: The Transnational Solution*, Harvard Business School Press, Boston, Mass, 1989.

Benito, G. and G. Gripsrud, "The Expansion of Foreign Direct Investments: Discrete Rational Location Choice or a Cultural Learning Process?", *Journal of International Business Studies*, vol. 23 (3), 1992.

Bergsten, C. F., T. Horst and T. H. Moran, *American Internationals and American Interests*, Brookings Institution, Washington, 1978.

Bergstrand, J. H., "Measurement and determinants of intraindustry international trade", in P. K. M. Tharakan (ed.), *Intraindustry Trade*, North Holland, Amsterdam, 1983.

Bilkey, W. J., "An Attempted Integration of the Literature on the Export Behaviour of Firms", *Journal of International Business Studies*, 1978, Vol. 9 no. 1, Spring/Summer.

Bilkey, W. J., "Export Marketing Practices and Export Profitability", *Research in Marketing*, Volume 7, 1984.

Bilkey, W. J. and G. Tesar, "The Export Behavior of Smaller-Sized Wisconsin Based Manufacturing Firms", *Journal of International Business Studies*, Vol. 8, 1977.

Björkman, I. and M. Englund, "Entering Foreign Markets, An Analysis of the Market Entry Modes Used by Finnish Direct Investors in Germany", in H. Vestergaard (ed.), *An Enlarged Europe in the Global Economy*, Proceedings of the 17th annual EIBA conference, December, 1991.

Bodur, M., "A Study on the Nature and Intensity of Problems experienced by Turkish Exporting Firms", in S. T. Cavusgil (ed.) *Advances in International Marketing*, JAI-Press, Greenwich, Conn., 1986.

Boddewyn, J. J., R. Soehl, J. Picard, 1986: "Standardization in International Marketing: Is Ted Levitt in Fact Right?", *Business Horizons*, Nov-Dec 1986.

Bradley, M. F., "Application of Systems Exchange and Research Process Paradigms to International Marketing", Proceedings of the *Workshop on International Marketing Strategy*, EIASM, Bruxelles, December 12-13, 1985.

British Overseas Trade Board, "Explaining Success and Failure in Exports", *BOTB Occasional Papers*, April 1987.

Buckley, P. J., and Casson, M. C., *The Future of International Enterprise,* London, Macmillan and Nyew York Holms Meyer, 1976.

Buckley, P. J., and Casson, M. C., *The Economic Theory of the Multinational Enterprise: Selected Papers*, London, Macmillan, 1985.

Buigues, P. and A. Jacquemine, "Strategies of Firms and Structural Environments in the Large Internal Market", *Journal of Common Market Studies,* March, 1989.

Burton, F. N., B. B. Schlegemilch, "Profile Analysis of Export Involvement," *Management International Review*, 1-87, 1987.

Business Week, "What 600 Companies Spend for Research", 27 June, 1977.

Buzell, R. D., "Can You Standardize Multinational Marketing?", *Harvard Business Review,* Nov-Dec, 1968.

Buzell, R. D., B. T. Gale and R. G. M. Sultan, *"Market Share - A Key to Profitability in Strategic Management"* , HBR-Press, John Wiley and Sons, New York, 1983.

Buzell, R. D. and B. T. Gale, *"The PIMS Principles",* Free Press, New York, 1987.

Buzell, R. D., and P. Ferris, " Marketing Cots in Consumer Goods Industries", in Hans B. Thorelli (ed.), *"Strategy + Structure = Performance",* Indiana University Press, Bloomington, 1977.

Carman, J. M., "Paradigms for Marketing Theory", in Jagdish Sheth, *Research in Marketing*, Vol. 3, JAI-Press, 1980.

Casson, M. C., *Inside the Multinationals*, Croom Helm, London, 1981.

Casson, M. C., "The Theory of Foreign Direct Investment", in P. J. Buckley and M. C. Casson, *The Economic Theory of the Multinational Enterprise*, Macmillan, London, 1985.

Casson M. C., *The Firm and the Market: Studies on Multinational Enterprise and the Scope of the Firm*, Blackwell, Oxford, 1987.

Cateora, P., *International Marketing*, Sixth Edition, Richard D. Irwin, Homewood, Illinois, 1987.

Caves, R. A., "Industrial Organisation, Corporate Strategy and Structure,; A Survey", *Journal of Economic Literature*, 1980.

Caves, R. A., *"Multinational Enterprise and Economic Analysis"*, Cambridge University Press, Cambridge, 1982, (reprint 1990).

Caves, R. A., and M. E. Porter, "From Entry Barriers to Mobility Barriers; Conjectural Decisions and Contrived Deterence to New Competition", *Quarterly Journal of Economics*, 1977, 91.

Cavusgil, S. T., "Differences Among Exporting Firms Based on their Degree of Internationalization", *Journal of Business Research*, 12, 1984.

Cavusgil, S. T., "On the Internationalization Process of Firms", *European Research*, November, 1980.

Cavusgil, S. T. and J. R. Nevin, "State of the Art of International Marketing: An Assessment", in B. M. Enis, and K. J. Roering (eds): *"Review of Marketing"*, American Marketing Association, 1981.

Cavusgil, S. T., "Success Factors in Export Marketing", *Journal of International Marketing and Marketing Research*, vol. 8 No 2, 1983.

Chamberlin, E. H., *The Theory of Monopolistic Competition,* Cambridge, Mass., Harvard University Press, 1933.

Chandler, A. D. jr., *Strategy and Structure: Chapters in the History of American Industrial Enterprise*, MIT Press, Cambridge, Mass, 1962.

Chandler, A. D. jr., *The Visible Hand,* Cambridge, Mass., Harvard University Press, 1977.

Chandler, A. D. jr., "The Evolution of Modern Global Competition", in Porter, M. E. (ed.), *Competition in Global Industries,* Harvard Business School Press, Boston, 1986.

Chrisman, J., W. Boulton and C. Hofer, "Toward a System for Classifying Business Strategies", *Academy of Management Review*, 13, 1988.

Chu, W. and E. M. Anderson, "Capturing Ordinal Properties of Categorical Dependent Variables: A Review with Application to Modes of Foreign Entry", *International Journal of Resaerch in Marketing,* May, 1992.

Comanor, W. S. and T. A. Wilson, "Advertising, Market Strucure and Performance", *Review of Economics and Statistics*, November 1967.

Comanor, W. S. and T. A. Wilson,*Advertising and Market Power*, Harvard University Press, Cambridge, Mass., 1974.

Contractor F. J. and P. Lorange, "Competition vs. Cooperation: A benefit/cost framework for choosing between fully owned investments and cooperative relationships" in Westacot, Dexter, Yanouzas, Boukis (eds): *Managing in a Global Economy II",* Eastern Academy of Management, Proceedings of the Second International Conference, June 14-18, 1987.

Contractor F. J. and Peter Lorange, "Why Should Firms Cooperate? The Strategy and Economics Basis for Cooperative Ventures", in F. J. Contractor and Peter Lorange (eds), *Cooperative Ventures in International Business*, Lexington Books, Lexington Mass., 1988.

Collins R., R. Schmenner and D. Whybark, "Pan European Manufacturing: the Road to 1992", *European Business Journal*, Vol. 1, No 4, 1989.

Cool K. O. and D. E. Schendel, "Patterns of Competition, Strategic Group Formation and Performance: The Case of the US Pharmaceutical Industry", 1963-82, *Working Paper 85/26*, INSEAD, 1985.

Cunningham, M. T. and R. I. Spigel, "A Study in Succesful Exporting", *British Journal of Marketing*, Vol 5., 1971.

Cyert, M. R. and J. G. March, *A Behavioral Theory of the Firm*, Prentice Hall, Englewood Cliffs, 1963.

Cvar, M. R., *Competitive Strategies in Global Industries*, Unpublished PhD dissertation, Harvard Business School, 1984.

Cvar, M. R., "Case Studies in Global Competition: Patterns of Success and Failure", in Porter, M. E. (ed.), *Competition in Global Industries*, Harvard Business School Press, Boston, 1986.

Czinkota, M. and W. J. Johnston, 1983, "Does Sales Volume Make a Difference?", *Journal of International Business Studies*, Spring/Summer.

Davidson, W. H., "The Location of Foreign Direct Investment Activity: Country Characteristics and Experience Effects", *Journal of International Business Studies*, 11 (2) 1980.

Davidson, W. and P. Haspelagh, "Shaping a Global Product Organization", *Harvard Business Review*, July-Aug, 1982.

Davies, S. , "Concentration", Chapter 3 in S. Davies and B. Lyons et al, *Economics of Industrial Organisation*, Longman Group, London, 1988.

Davis, P. *An Analysis of Industry Forces, Corporate Strategy and Business Strategy as Factors Explaining Business Unit Performance,* PhD Dissertation, University of South Carolina, 1986.

Dess, G. and P. Davis, "Porter's (1980) Generic Strategies as Determinants of Strategic Groups Membership and Organizational Performance", *Academy of Management Journal*, 27, 1984.

Dholakia, N. and F.A. Firat, "Developments in the Area of Globalizing Markets and Consumption Patterns" in E. Kuman and F. A. Firat (eds), *Research in Marketing, Marketing and Development: Toward Broader Dimensions* p, JAI Press Inc., Greenwich, Conn.,1988.

Dichtl, E. H., G. Kögelmayr, and S. Müller, "Identifying Export Potential: A Comparative Analysis of German and Japanese Firms", in S. T. Cavusgil (ed.) *Advances in International Marketing*, JAI-Press, Greenwich, Conn., 1986.

Doz, Y., "International Industries: Fragementation versus Globalization", in B. Guile and H. Brooks (eds), *Technology and Global Industry: Companies and Nations in the World Economy,* Washington DC., National Academy Press, 1987.

Doz, Y., C. K. Prahalad and G. Hamel, "Control, Change and Flexibility: the Dilemma of Transnational Collaboration", in Bartlett, Doz and Hedlund (eds), *Managing the Global Firm*, Routledge, 1990.

Drèze, J., "Les Exportations Intra CEE en 1958 et la Position Belge", *Recherches Economiques de Louvain*, 27, 1961.

Dunning, J. H., "Trade, Location of Economic Activity, and the Multinational Enterprise: The Search for an Eclectic Approach", In B. Ohlin, P. O. Hesselborn og P. E. Wiskman (eds), *The International Allocation of Economic Activity*, London, 1977.

Dunning, J. H., "Explaining changing patterns of international production: in defence of the eclectic theory", *Oxford Bulletin of Economics and Statistics*, Special issue: The Multi-National Corporation, 41, no. 4, November, 1979.

Dunning, J. H., "Toward an Eclectic Theory of International Production: Some Empirical Tests", *Journal of International Business Studies*, Spring/Summer, 1980.

Dunning, J. H., "Cross-Border Corporation Integration and Regional Integration", *Discussion Papers in International Investment and Business Studies*, No. 105, University of Reading, 1987.

Dunning, J. H., "The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions", *Journal of International Business Studies*, Vol. 19, Nr 1, 1988.

Easterbury-Smith, M., R. Thorpe and A. Lowe, *Management Research: An Introduction,* Sage, 1991.

Emerson, M., *"The Economics of 1992"*, Brussels, Commission of European Economic Communities, 1988.

Engwall, L. and M. Wallenstål, "Tit for Tat in Small Steps: The Internationalization of Swedish Banks", *Scandinavian Journal of Management*, Vol. 4. No. 3/4, 1988.

Ehrnrooth, Georg, *Handelshinder inom Byggområdet*, Nordiska Byggmöte, Dipoli, Finland, 1986.

Eramilli, M. K. and C. P. Rao, "Choice of Foreign Entry Modes by Service Firms: Role of Marketing Knowledge", *Management International Review,* 30 (2), 1990.

Eramilli, M. K. and C. P. Rao, "Service Firms' International Entry Mode Choice: A Modified Transaction Cost Analysis Approach", *Journal of Marketing*, 57 (July), 1993.

Falkenberg, A., *Eksportstudien*, Ministry of Foreign Affairs, Oslo - Norway, 1989.

Fayerweather, J., *"Interntational Business Management"*, MacGraw Hill, New York, N. Y. 1969.

Fielding, N. G. and J. L. Fielding, *Linking Data,* Sage Publications, Beverly Hills, 1986.

Flaherty, M. "Coordinating International Manufacturing and Technology", in M. Porter (ed.), *Competition in Global Industries,* Boston, Harvard Business School, 1986.

Ford I. D. and R. Thomas, "Network Perceptions and Technology", *Working Paper for Research Seminar on Networks, UMIST,* July 1991.

Forsgren, M., *Managing the Internationalization Process, The Swedish Case"*, Routledge, London, 1989.

Galbraith C. and D. E. Schendel, "An Empirical Analysis of Strategy Types", *Strategic Managment Journal*, 4, 1983.

Giddy, I., "The Demise of the Product Life Cycle in International Business Theory", *Colombia Journal of World Busines,* vol. 13,1978, p. 90-97.

Gilroy, B. M., "Networking in Multinational Enterprises: The Importance of Strategic Alliances", Paper presented at the 7th IMP Conference: *International Business Networks: Evolution, Structure, and Management,* Uppsala, Sweden, 6-8 September, 1991.

Glaser, B. G. and A. L. Strauss, *The Discovery of Grounded Theory: Strategies for Qualitative Reasearch,* De Gruyter, New York, 1967.

Goedde, A. G., *US Multinational Manufacturing Firms: The Determinants and Effects of Foreign Investments*, PhD Dissertation, Duke University, 1978.

Gomes-Casseres, B., "Firm Ownership Preferences and Host Government Restrictions: An Integrated Approach", *Journal of International Business Studies,* First quarter, 1990.

Greenaway, D., "Intra-Industry Trade, Intra-Firm Trade and European Integration: Evidence, Gains and Policy Aspects", *Journal of Common Market Studies,* Volume XXVL no 2, December 1987.

Griffiths, J., "Nissan sacks UK importer and plans new network", *Financial Times,* December 28, 1990.

Griliches, V., and Ringstad, *Economies of Scale and the Form of the Production Function,* North Holland, Amsterdam, 1971.

Grimwade, N., *International Trade: New Patterns of Trade, Production and Investment,* Routledge, London, 1989.

Gruber, W., D. Metha and R. Vernon, "The R&D Factor in International Trade and International Investment of US Industries", *Journal of Political Economy,* February, 1967.

Grubel, H. G. og Lloyd, P. J., *Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products,* Macmillan, London, 1975.

Grunne, T. and G. Solli, *Eksport av byggevarer; en undersøkelse av norske produsenters internasjonale markedsføring,* Thesis at the Norwegian School of Management, 1986.

Hagedoorn, J. and J. Schakenraad "Leading Companies and the Structure of Strategic Alliances in Core Technologies", Paper presented at *Workshop on Europe and Globalisation,* EIASM, Bruxelles, May, 1990.

Håkanson, H. (ed.), *International Marketing and Purchasing of Goods; An Interaction Approach,* John Wiley and Sons, Chichester, 1982.

Hallèn, L., J. Johanson and N. S. Mohamed, "Relationship Strength and Stability in International and Domestic Industrial Marketing", in David Ford, *Understanding Business Markets, Interaction, Relationships, Networks*, Academic Press Limited, San Diego, CA, 1990.

Hamel, G. and C. K. Prahalad, "Do You Really Have a Global Strategy?", *Harvard Business Review*, July- Aug, 1985.

Hamill, J. and El Hajjar: "Strategic Alliances - Way Forward for Europe", Paper presented at *Academy of International Business*, Glasgow, April 1990.

Hamill, J. "Global Marketing", in M. J. Baker (ed.), *Perspectives on Marketing Management*, John Wiley and Sons Ltd, 1992.

Harrigan, K. R., "Strategic Alliances: Their New Role in Global Competition", *Colombia Journal of World Business*, Summer, 1987.

Heckscher, E., "The Effect of Foreign Trade on the Distribution of Income", *Ekonomisk Tidskrift*, 21, 1919. Retranslated in H. Flam and M. J. Flanders (eds), *Heckscher-Ohlin Trade Theory*, Cambridge, MA, Harvard University Press, 1933.

Hedlund, G., "The Hypermodern MNC - A Heterarchy?", *Human Resource Management*, Spring, 1986.

Hedlund, G. and D. Rolander, "Action in Heterarchies - New Approaches to Managing MNCs", in Bartlett, Doz and Hedlund (eds), *Managing the Global Firm*, Routledge, 1990.

Heenan, D. A. and W. J. Keegan, "Third World Multinationals", *Harvard Business Review*, Jan-Feb, 1979.

Heldey, B., "Strategy and the Business Portfolio", *Long Range Planning*, February, 1977.

Hofstede, G., *"Culture's Consequences: International Differences in Work Related Values"*, Sage Publications, Beverly Hills, California, 1980.

Horst, T., "The Industrial Composition of US Exports and Subsidiary Sales to the Canadian Market", *American Economic Review*, March, 1972.

Horst, T., "Firm and Industry Determinants of the Decision to Invest Abroad: An Empirical Study", *Review of Economic Statistics*, August, 1972 a.

Hout, T., M. E. Porter and E. Rudden, "How Global Companies Win Out", *Harvard Business Review,* Sept-Oct, 1982.

Hufbauer, G.C., *"Synthetic Materials and the Theory of International Trade"*, Durkworth, London, 1966.

Hunt, M. S., *Competition in the Major Home Appliance Industry, 1960-1970*, Unpublished doctoral dissertation, Graduate School of Business Administration, Harvard University, 1972.

Huzagh, S. M., R. J. Fox and E. Day, 1985: "Global Marketing: An Empirical Investigation", *Columbia Journal of World Business*, Winter 1985.

Hymer, S. H., *The International Operations of National Firms: A Study of Direct Investments*, Ph.D.Thesis, MIT,(Published by MIT press under the same title in 1976) Cambridge, Mass., 1960.

Jain, S. C., *International Marketing Management,* Kent Publ Co, Boston, Mass., 1987

Johanson J. and F. Wiedersheim-Paul, "Internationalization of the Firm; Four Swedish Case Studies", *The Journal of Management Studies*, 12 (October), 1975.

Johanson J. and J.-E. Vahlne, 1977, "The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Commitments", *Journal of International Business Studies*, 8 (2).

Johanson, J. and J.-E. Vahlne, "The Mechanisms of Internationalization", *International Marketing Review*, Fall, 1990

Johanson, J. and L. G. Mattson, "International Marketing and Internationalisation Processes - A Network Approach", in P. W. Turnbull and S. J. Paliwoda (eds), *Research in International Marketing,* Croom Helm, London, 1986.

Jolly, V. "Global Competitive Strategies", in C. Snow (ed.), *Strategy, Organization Design and Human Resource Management,* JAI-Press, Greenwich, Conn., 1988.

Joynt, P., "International Strategy: a Study of Norwegian Companies", in S. B. Prasad, *Advances in International Comparative Mangement,* Vol. 4, JAI Press Inc., Greenwich, Conn., 1989.

Kamath, S., P. J. Rosson, D. Patton and M. Brooks, "Research on Success in Exporting: Past, Present and Future", in P. J. Rosson and S. L. Reid, *Manageing Export Entry and Expansion,* Praeger, New York, 1987.

Kaynak, E. and L. Stevenson, "Profile Analysis of Nova Scotia Exporters", Proceedings, *Administrative Sciences Association of Canada - Marketing Division*, University of Ottawa, 1982.

Kedia B. L. and J. Chhokar, "Factors Inhibiting Export Performance of Firms: An Empirical Investigation", *Management International Review,* Vol. 26, 1986. 4.

Keegan, W. J., *"Multinational Marketing Management"*, 4th ed. Prentice-Hall International Inc, 1984.

Kern, H., H. K. Wagner and R. Hassis, "European Aspects of a Global Brand: The Case of BMW", *Marketing Research Today*, February 1990.

Kindleberger, C. P., *"American Business Abroad"*, New Heaven: Yale University Press, 1969.

Kirpilani, V. H. and N. B. Macintosh, "International Marketing Effectiveness of Small Technology-Oriented Firms", *Journal of International Busines Studies*, Winter, 1980.

Kitching, J., "Why Do Mergers Miscarry?", *Harvard Business Review*, Nov-Dec, 1967.

Kitching, J., *"Acquisitions in Europe: Causes of Corporate Success and Failures"*, Business International European Research Report, Genève, 1973.

Kleinschmidt, E. J. and R. E. Ross, "Export Performance and Foreign Market Information: Relationships for Small High Technology Firms", *Canadian Journal of Small Business Entrepreneurship*, 1984, vol. 2.

Knickerbrocker, F. T., *"Oligopolistic Reaction and Multinational Enterprise"*, Harvard University Press, Boston, 1973.

Kogut, B., "International Sequential Advantages and Network Flexibility", in Bartlett, Doz and Hedlund (eds), *Managing the Global Firm*, Routledge, 1990.

Kohli, A. K. and B. J. Jaworski, "Market Orientation: the Construct, Research Propositions and Mangerial Implications", *Journal of Marketing*, Vol. 54, (April 1990).

Kotler, P., interviewed in Fortune; "The Ad Biz Gloms onto Global", *Fortune*, November 12, 1984.

Kotler, P., *Marketing Management*, Seventh edition, Prentice Hall, Englewood Cliffs, 1991.

Krugman, P. R., "Industrial Organization and International Trade", in R. Schmalensee and R. D. Willig (eds), *Handbook of Induustrial Organization*, Elsevier Science Publishers NV., 1989.

Kuehn, D., *Takeovers and the Theory of the Firm*, Arrowsmith, Bristol, 1975.

Kverneland, Å.. "Japan`s Industry Structure-Barriers to Global Competition," in N. Hood and J.-E. Vahlne, *Strategies in Global Competition*, Stockholm School of Economics,1988.

Lall, S., "Monopolistic Advantages and Foreign Involvement by US Manufacturing Industry", *Oxford Economic Papers*, March 1980.

Lassudrie-Duchéne, B. and J. L. Muchieli, "Les échanges comparés dans le commerce international", *Revue Economique*, May 1979.

Lee, W.-Y and J. J. Brasch, "The Adoption of Exports as an Innovative Strategy", *Journal of International Business Studies*, Vol. 9, 1978.

Leontiades, J., "Market Share and Corporate Strategy in International Industries", *Journal of Business Strategy*, Summer, 1984.

Leontiades, J., *"Multinational Corporate Strategy, Planning for world markets"*, Lexington Books, Lexington Massachusets, Toronto, 1985.

Leontiades, J., "Going Global; Global Strategies vs National Strategies", *Long Range Planning*, 19 (6), 1986.

Leontiades, M., "Flaws in Porter´s Competitive Diamond", *Planning Review*, September/October 1990.

Leontieff, H. "Domestic Production and Foreign Trade: The American Capital Position Re-Examined," Proceedings of the American Philosophical Society, 1953.

Levitt, T., "The Globalization of Markets", *Harvard Business Review*, 1983.

Linder, S. B., *An essay on Trade and Transformation*, John Wiley & Sons, New York, 1961.

Lindgren, U., *Foreign Acquisitions. Management of the Integration Process*, PhD thesis, Institue of International Business, Stockholm, 1982.

Lindvall, J., *Svenska industriföretags internationalla företagsförvärv - Inriktning och Utfall*, PhD thesis, University of Uppsala, 1991.

Lipman, J., 1988, "Marketeers Turn Sour on Global Sales Pitch Harvard Guru Makes", *Wall Street Journal*, May 12, 1988, New York.

Luostarinen, R., *Internationalization of the Firm: An empirical study of the internationalization of firms with small and opnen domestic markets with special emphasis on lateral rigidity as a bahavioral characteristic in strategic decision-making*, PhD Dissertation, The Helsinki Scool of Economics, Helsinki, 1980.

Luostarinen, R. and Lawrence Welch, *Interntaional Business Operations*, KY Bookstore, Helsinki School of Economics, 1990.

Lyons, B., " A New Measure og Minimum Efficient Plant Size in U.K. Manufacturing Industry", *Economica*, Feb, 1980.

Lyons, B., "Barriers to Entry", Chapter two in Davies, Lyons et al, *"Economics of Industrial Organisation"*, Longman Group, 1988

Mason, E. S., "Price and Production Policies of Large Scale Enterprixes", *American Economic Review*, 29, 1939.

MAC-Group, *"The Cost of Non-Europe"*, Commision of the European Communities, vol 12b, 1988.

McGee, J., "Strategic Groups: A Useful Linkage between Industry Structure and Strategic Management", in Thomas, H. and D. M. Gardner (eds), *Strategic Marketing and Management,* Chichester; John Wiley, 1985.

McGee, J. and S. Segal-Horne, "Strategic Space and Industry Dynamics", Paper presented at the *UK Academy of International Business*, April 6-7, 1990, Strathclyde International Business Unit, University of Strathclyde, Glasgow, 1990.

Modigliani, F., "New Developments on the Oligopoly Front", *Journal of Political Economy*, 1958, 66, 215-32

Morrison, A. J., *US Business Level Strategies in Global Industries*, PhD dissertation, University of South Carolina, 1989.

Mueller, D. C. and J. E. Tilton, "Research and Development Costs as a Barrier to Entry", *Canadian Journal of Economics*, 2, 1969.

Mühlemann, L., "Taking Effective Global Approaches", in *Shaping Effective Responses to the Globalization Challenge*, McKinsey & Company, Inc., New York, 1986.

Nelson, R. R. and S. G. Winter, *An Evolutionary Theory of Economic Change*, Harvard University Press, Cambridcge, Mass., 1982.

Newbold, G. D., P. J. Buckley and J. Thurwell, *Going International*, Associated Business Press, London, 1978.

Nordström, K., *The Internationalisation of the Firm in a New Perspective*, PhD Dissertation, Stockholm, Institute of International Business, 1990.

Nordström , K. and J.-E. Vahlne, "Impact on the Global Competition on the Process of Intrernationalization", *Stockhom School of Economics*, Institute of International Business, RP85/6, 1985.

Ohlin, B., *Inter-regional and International Trade*, Harvard University Press, 1935.

Ohmae, K., *Triad power: The Coming Shape of Global Competition*, The Free Press, 1985.

Ohmae, K., "The Global Logic of Strategic Alliances", *Harvard Business Review*, Mars-April, 1989.

Ohmae, K., *"The Borderless World: Power stratrgy in the Interlinked Economy"*, Collins, London, 1990.

Olson, H. C., *Studies in Export Promotion: Attempts to Evaluate Export Stimulation Measures for the Swedish Textile and Clothing Industries*, PhD Dissertation, University of Uppsala, 1975

Parker, J. E. S., *Economics of Innovation: The National and International Enterprise in Technological Change*, 2nd Edition, Longmans, London, 1978.

Penrose, E. T., *The Theory of the Growth of the Firm*, Basil Blackwell, Oxford, 1959, (Second edition, 1980).

Perlmutter, H. V. og Heenan, D. A., "Cooperate to Compete Globally", *Harvard Business Review*, Mars-April, 1986.

Peters T. J., and R. H. Waterman Jr., *In Search og Exellence: Lessons from America's Best-Run Companies*, Harper & Row Publishers, 1982.

Piercy, N. "Company Internationalization", *European Journal of Marketing*,"Vol. 15, November 3, 1981.

Porter, M. E., "The Contributions of Industrial Organisation to Strategic Management", *Academy of Management Review*, 1981, 6.

Porter, M. E. *Competitive Strategy*, The Free Press, New York, NY, 1980.

Porter, M. E. (ed.), *"Competition in Global Industries"*, Harvard Business School-Press, Boston, Mass, 1986.

Porter, M. E., *The Competitive Advantage of Nations*, The Macmillan Press Ltd, London, 1990.

Porter, M. E. and H. Takeuchi, "Three Roles of Marketing in Global Strategy", in M. E. Porter (ed.), *Competition in Global Industries*, Harvard Business School-Press, Boston, Mass, 1986.

Posner, M. "International Trade and Technical Change", *Oxford Economic Papers* , 13, 1961.

Prahalad, C. and Y. Doz, *The Multinational Mission: Balancing Local Demands and Global Vision,* New York, The Free Press, 1987.

Prescott, J., *Competitive Environments, Strategic Types and Business Performance: An Empirical Analysis*, unpublished PhD Disertation, The Pennesylvania State University, 1983.

Pugel, T. A., *International Market Linkages and US Manufacturing: Prices, Profits and Patterns*, Ballinger, Cambridge, MA, 1978.

Punch, M., *The Politics and Ethics of Fieldwork,* Sage Publications, Beverly Hills, 1986.

Rabino, S., "An Examination of Barriers to Exporting Encountered by Small Manufacturing Companies", *International Management Review*, 1, vol. 20. 1980.

Rappaport, A., "Strategic Analysis for more Profitable Acquisistions", *Harvard Business Review*, July August, 1979.

Reich, R. B., *The Work of Nations: Preparing Ourselves for the 21st Century Capitalism,* Alfred Knopf, New York, 1991.

Reid, S. D., "The Decision Maker and Export Entry and Expansion," *Journal of International Business Studies*, Fall, 1981.

Reid, S. D., "Firm Internationalization, Transaction Costs and Strategic Choice", *International Market Review*, 1 (2) 1983.

Reve T., and L. W. Stern, ."Interorganizational Relations in Marketing Channels", *Academy of Mangement Review*, 4 (3), 1979.

Reve, T., T. Lensberg and K. Grønhaug, *Et konkurransedyktig Norge*, TANO, Oslo, 1992

Ricardo, D., *"Principles of Political Economy and Taxation"*, Cambridge, UK, Cambridge University Press, 1981. First published 1817.

Robinson, R. and J. Pearce, "The Structure of Generic Strategies and their Impact on Business Unit Performance", *Academy of Management* Proceedings, San Diego, 1985.

Rogers, E. M., *"Communication of Innovations"*, The Free Press, New York, 1962.

Roos, J., *Cooperative Venture Formation Processes: Characteristics and Impact on Performance,* PhD Dissertation, Stockholm School of Economics, 1989.

Rosen, B. N., J. J. Boddewyn and E. A. Louis, "US Brands Abroad: An Empirical Study of Global Branding", *International Marketing Review*, Vol. 6:1, 1989.

Rosson, P. J., "The Overseas Distributor Method: Performance and Change in Harsh Environment", in S. Reid and P. J. Rosson, *Managing Export Entry and Expansion*, Praeger, New York, 1987.

Rugman, A. and A. Verbeke, "Generic Strategies in Global Competition", *AIB Conference,* Maui, Hawaii, October 21-24, 1993.

Samuelson, P., "International Trade and Equalisation of Factor Prices", *Economic Journal,* 59, 1948.

Sands, S., "Changes in Scale of Production in United States Manufacturing Industry, 1904-1947", *Review of Economics and Statistics* 43, November 1961.

Scaperlanda, A. E., and L. J. Mauer, "The Determinants of US Direct Investments in the EEC", *American Economic Review*, September, 1969.

Scherer, F. M., *Industrial market structure and economic performance*, Second edition, Hughton Mifflin Company, Boston, 1980.

Scherer, F. M., A. Beckenstein, E. Kaufer and R. D. Murphy, *The economies of Multi-plant operation: an international Comparison Study*, Harvard University Press, Cambridge, Mass., 1975.

Schmitz, A., and J. Bieri, "EEC Tariffs and United States Direct Investment", *European Economic Review*, October, 1972.

Schumpeter, J. A., *"Capitalism, Socialism, and Democracy"*, 3rd edition, Harper & Row, Publishers Inc., 1950.

Sellers, P., "Coke´s Brash New European Strategy", *Fortune*, August, 1990.

Selnes, F., J. Henriksen and E. Olsen, "Eksportsuksess; en analyse av et utvalg TBL-bedrifter som deltar i TOPP-programmet", *Norsk Institutt for Markedsforskning*, NiM Rapport 15-1993.

Seringhaus, F. H. and Philip J. Rosson, *"Government Export Promotion"*, Routledge, 1990.

Shepherd, W. G. "The elements of market structure", *Review of Economics and Statistis*, Cambridge Mass., February, 1972.

Sheth, J. N.,and E. Abdolezra, "The Globalization of Consumption Patterns: An Empirical Investigation", in E. Kaynak (ed.), *Global Perspectives in Marketing*, Praeger, New York, 1985.

Simmonds, K. and H. Smith, "The First Export Order: A Marketing Innovation", *British Journal of Marketing*, Summer 1968.

Simpson, C.D., Kujaura, D.,"The Export Decision Process, An Empirical Study," *Journal of International Business Studies*, Spring, 1974.

Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, Random House, New York, 1937. First Published, 1776.

Solberg, C. A., *Eksportmarkedsføring: fra eksportsalg til internasjonal markedsføring*, Tanum Forlag, 1 Oslo, 1976.

Solberg, C. A., *Eksportmarkedsføring: fra eksportsalg til internasjonal markedsføring*, TANO, 1 Oslo, second edition, 1986.

Solberg, C. A., "Export Strategies and Pricing Practices in Norwegian Companies," *Monterey Review*, Fall,1987.

Solberg, C. A., "Succsessful and Unsuccsessful Exporters: An Empirical Study of 114 Norwegian Export Companies", Working Paper, *Norwegian School of Management*, Sandvika, Norway, 1988.

Solberg, C. A., "Standardization or Adaption in International Marketing: More Than Just Economies of Scale and Market Homogenity", in Reijo Loustarinen (ed.), *Dynamics of International Business*, Vol. 2, 1989.

Solberg, C. A., "Responding to the Globalisation Challenge, A Framework of Analysis and Decision Making", Paper presented at Work shop on *Globalization and Europe*, EIASM, Bruxelles, 1990.

Solberg, C. A., *International Market Research, A Decision Maker Approach*, Institute of International Business Development, Norwegian School of Management, Sandvika, 1989.

Solberg, C. A., "Strategic Alliances, Only for adults", *IMP-Proceedings,* Lyon, September 1992.

Sölvell, Ö., *Entry Barriers and Foreign Penetration,* PhD dissertation, Stockhollm School of Economics, 1987.

Sölvell, Ö., "Is the Global Automotive Industry really Global?", in Hood, N. and J. E. Vahlne, *Strategies in Global Competition*, Stockoholm School of Economics,1988.

Stern, L. W. and A. I. El-Ansari, *Marketing Channels*, second edition, Prentice Hall, Englewood Cliffs, 1982.

Steslow, I., "World Shipbuilding Industry", Discussion paper, *Institute of International Business Development,* Norwegian School of Mangement, 1989.

Stewart, F., "Recent Theories of International Trade", in H. Kierzkowski, *Monopolistic and International Trade*, Clarendon Press, Oxford, 1984.

Stopford, J. M. and L. T. Wells jr., *Managing the Multinational Enterprise*, Basic Books, New York, 1972.

Swedenborg, B., *The Multinational Operations of Swedish Firms: An Analysis of Determinants and Effects,* PhD Dissertation, University of California, 1979

Terpstra, V. and C.-M. Yu, "Determinants of Foreign Investment of U.S. Advertising Agencies", *Journal of International Business Studies*, Spring, 1988.

Tinsley, T., "Interpreting the Drive toward Globalisation", in *"Responding to the Globalization Challenge"*, McKinsey, New York, 1986.

Tookey, D. A., "Factors associated with success in exporting", *Journal of Management Studies*, March, 1964.

Turnbull, P. W., "A Challenge to the Stages Theory of the Internationalization Process", in S. Reid and P. J. Rosson, *Managing Export Entry and Expansion*, Praeger, New York, 1987.

United Nations on Transnational Corporations (UNCTC), *Transnational Corporations in World Development*, New York, 1985.

United Nations on Transnational Corporations (UNCTC), *Transnational Corporations in World Development*, New York, 1988.

Usunier, J. C., "The European Consumer, Globalizer or Globalized?", Paper presentert at Work Shop on *Globalization and Europe*, EIASM, Bruxelles, 1990.

Verdoorn, P. J., "The Intra-Block Trade of Benelux", In , E. A. G. Robinson (ed.), *Economic Consequences of the Size of Nations*, Macmillan, London, 1960.

Vernon, R. "International Investment and International Trade in the Product Cycle", *Quartly Journal of Economics* 80, 1966.

Vernon, R., "The Product Life Cycle Hypothesis in a New International Environment", *Oxford Bulleting of Economics and Statistics*, vol. 41, 1979, pp. 225-67,.

Vikøren, B., "Små og Mellomstore Bedrifter, en ny rapport om etablerte mindre bedrifters livs- og rammevilkår", NHO, Oslo - Norway, 1990.

Walters, K. D. and R. J. Monsen, "State-owned Business Abroad: New Competitive Threat," *Harvard Business Review*, March April, 1979.

Welch, L. S. and F. Wiedersheim-Paul, "Initial Exports, A Marketing Failiure?", *Journal of Management Studies*, Vol. 17, No. 4., 1978.

Welch, L. S. and R. Luostarinen, "Internationalization: The Evolution of a Concept," *Journal of General Management*, Vol. 14, No 2, Winter 1988.

Welch, L. S. and R. Luostarinen, *"International Operations"*, Helsinki, 1991.

Wiedersheim-Paul, F. and H. C. Olson, "Factors Affecting Pre Export Behaviour in Non Exporting Firms," in Chertman, M. and Leontiades, J. (eds) *European Research in International Business*, New York, 1978.

Wilkinson, I. and N. Barrett, "Australian Management's Attitudes to Exporting - Past and Present", Unpublished paper presented to the *Market Research Society of Australia's* Annual Conference, Canberra, 1986.

Williamson, O. E., "Transaction Cost Economics - The Governance of Contractual Relations", *Journal of Law and Economics*, 22, 1979.

Williamson, O. E., *Corporate Control and Business Behavior*, New Jersey, Prentice Hall, 1970.

Wind, Y. and S. Douglas, "The Myth of Globalization", *Colombia Journal of World Business*, Winter, 1987.

Wolf, B. N., "Industrial Diversification and Internationalization: Some Empirical Evidence", *Journal of Industrial Economics*, December,1977.

Woo C. and K. Cool, "Porter's (1980) Generic Competitive Strategies: A Test of Performance and Functional Strategy Attributes", Working Paper, *Purdue University*, 1983.

Wortzell L. H. and H. V. Wortzell, "Export MarketingStrategies for NIC and LDC-based Firms", *Colombia Journal of World Business*, 1981 Spring, pp. 51-60.

Yin, R. K., *Case Study Research, Design and Methods,* revised edition, Sage Publications Inc. , 1989.

Yip, G. S., "Do American Businesses Use Global Strategy?", Working Paper, No. 91-101, *Marketing Science Institute*, Cambridge, Massachusets, January 1991,

Yip, G. S., *Total Global Strategy, Managing for Worldwide Competitive Advantage,* Englewood Cliffs, NJ, Prentice Hall , 1992.

Yip, G. S., and J. K. Johansson, "Exploiting Globalisation Potential: US and Japanese Strategies", forthcoming in *Strategic Management Journal.* (1994).

Appendices

Appendix 1
Questionnaire 1: International markets and strategies 1989-90

Appendix 2
Questionnaire 2: Strategiy review 1993 (follow up survey)

Appendix 3
Questionnaire 3: Experience from and attitudes to internationalisation

Appendix 4
A note on methodology - From questionnaire to position in the grid.

Appendix 5
Questionnaire 4: Survey on international strategies

Appendix 1

Questionnaire 1: International markets and strategies 1989-90

This questionnaire will help IBD analyse your company, with regard to identifying possible strategic alternatives in the company's internationalisation process. The information given will be treated strictly confidentially and will not be published so that your company will be recognised. Kindly address questions you might have on the questionnaire to Carl Arthur Solberg, 47-2-47 05 00 (Norway).

1. Please indicate the following figures:

	Sales(mill)	Number of employees	International share of sales(%)	Manufacturing abroad of total manufacturing(%)
1987	______	______	______	______
1988	______	______	______	______
1989	______	______	______	______

2. Please indicate the sales per market and the approximate number of customers in your most important markets. (Customer is defined as the one that buys the product; in industrial markets this corresponds to the user or the contractor installing the product; in consumer markets it is defined as the retailer, selling the the product to the "man in the street", and not your distributor). Please indicate also the the company's entry mode in each individual market.

			Entry mode						
Country	Sales	Number of (mill) customers	Distri-butor	Agent	Sales office	Own	License sellers	Others	Comments
1______	______	____	1	2	3	4	5	6	______
2______	______	____	1	2	3	4	5	6	______
3______	______	____	1	2	3	4	5	6	______
4______	______	____	1	2	3	4	5	6	______
5______	______	____	1	2	3	4	5	6	______
6______	______	____	1	2	3	4	5	6	______
7______	______	____	1	2	3	4	5	6	______

3. Please assess the market shares (%) of your own and your biggest and second biggest competitors within your product area, in your most important markets?

Country	Your Company				Biggest Competitor				Second biggest Competitor			
	0-5	6-15	15-30	>30	0-5	6-15	15-30	>30	0-5	6-15	15-30	>30
1______	1	2	3	4	1	2	3	4	1	2	3	4
2______	1	2	3	4	1	2	3	4	1	2	3	4
3______	1	2	3	4	1	2	3	4	1	2	3	4
4______	1	2	3	4	1	2	3	4	1	2	3	4
5______	1	2	3	4	1	2	3	4	1	2	3	4
6______	1	2	3	4	1	2	3	4	1	2	3	4
7______	1	2	3	4	1	2	3	4	1	2	3	4

4. How many competitors operate in each individual market?

	1-5	6-10	11-20	21-50	>50	Comments
1______	1	2	3	4	5	____________
2______	1	2	3	4	5	____________
3______	1	2	3	4	5	____________
4______	1	2	3	4	5	____________
5______	1	2	3	4	5	____________
6______	1	2	3	4	5	____________
7______	1	2	3	4	5	____________

5. How would you characterise the competition within your niche/product areas?

Some few competitors operate in almost all the markets	1	2	3	4	5	6	7	We never meet the same competitor in different markets
Price reduction in one market is met by counteraction by our competitors in other markets	1	2	3	4	5	6	7	Each market has its individual pricing pattern, independently of what happens in other markets
Many mergers/acquisitions alliances between competitors international markets	1	2	3	4	5	6	7	No mergers, acquisitions, alliances between competitors in in international markets

6. Please name your four most important competitors (name and localisation of head quarter)?

1________________ __________________
2________________ __________________
3________________ __________________
4________________ __________________

7. Please mention important changes in the competitive structure that may have occurred during the last couple of years (eg. mergers, acquisitions, strategic alliances , etc) ?

____
____
____
____

8. Please indicate to what extent the following elements are barriers to your marketing efforts in the individual market(1= almost prohibitive barrier considerably reducing our competetiveness, 2=barrier that to some extent reduce our competetiveness, 3=no or very little effect on our competetiveness).

Country	Customs	Quotas	Nationalism	Product Standards	Transport	Product Design	Comments
1_______	___	___	___	___	___	___	________________
2_______	___	___	___	___	___	___	________________
3_______	___	___	___	___	___	___	________________
4_______	___	___	___	___	___	___	________________
5_______	___	___	___	___	___	___	________________
6_______	___	___	___	___	___	___	________________
7_______	___	___	___	___	___	___	________________

9. Please indicate how the following statements reflect your company's position.

We sell the same products to all the markets	1	2	3	4	5	6	7	We tailor our products to each individual market
Our profitability depends on economies of scale of standardised products	1	2	3	4	5	6	7	Our manufacturing processes are very flexible
We have very high overhead costs	1	2	3	4	5	6	7	We have very low overhead costs
Our markets are roughly similar with regard to product requirements	1	2	3	4	5	6	7	Our markets are essentially different with regard to product requirements
We have few products in our product range	1	2	3	4	5	6	7	We have many products in our product range

10. Please indicate the approximate volume of your research and development effort relative to sales?

0-1%	1,1-3%	3,1-6%	6,1-10%	>10%
1	2	3	4	5

11. Please indicate the approximate number of potential and existing customers in each individual market. (Customer is defined as the one that buys the product; in industrial markets: the user or the contractor installing the product; in consumer markets: the retailer selling the the product to the "man in the street", and not your (exclusive) distributor).

	Total number of potential and existing customers in each individual market							
Country	1-5	6-10	11-20	21-50	51-100	101-500	>500	Comments
1_______	1	2	3	4	5	6	7	________________
2_______	1	2	3	4	5	6	7	________________
3_______	1	2	3	4	5	6	7	________________
4_______	1	2	3	4	5	6	7	________________
5_______	1	2	3	4	5	6	7	________________
6_______	1	2	3	4	5	6	7	________________
7_______	1	2	3	4	5	6	7	________________

12. Please indicate expected market growth the next three years, and your company's expected sales growth in the same period.

Country	Market growth the next three years				Company sales growth the next three years				
	Neg	0-5%	5-10%	>10%	Neg	0-5%	5-10%	10-20%	>20%
1_______	1	2	3	4	1	2	3	4	5
2_______	1	2	3	4	1	2	3	4	5
3_______	1	2	3	4	1	2	3	4	5
4_______	1	2	3	4	1	2	3	4	5
5_______	1	2	3	4	1	2	3	4	5
6_______	1	2	3	4	1	2	3	4	5
7_______	1	2	3	4	1	2	3	4	5

13. Which role does your company play for your most important customers?

Country	We are the only supplier						We are a marginal supplier
1_________	1	2	3	4	5	6	7
2_________	1	2	3	4	5	6	7
3_________	1	2	3	4	5	6	7
4_________	1	2	3	4	5	6	7
5_________	1	2	3	4	5	6	7
6_________	1	2	3	4	5	6	7
7_________	1	2	3	4	5	6	7

14. Please send your company's annual report for the last three years, or answer the following questions.

	1987	1988	1989
Equity ratio ((Equity in % of total capital)	____	____	____
Return on Sales ((Operating profit in % of sales)	____	____	____
Liquidity (Short term assets in % of short term liabilities)	____	____	____
Productivity of Labour (Salary in % of sales)	____	____	____
Productivity of Capital (Total assets in % of sales)	____	____	____
Investments in % of sales	____	____	____

15. Please indicate approximately how many employees who are actively involved in international sales in your company at the head quarter, and how much time as a percentage of total work time is spent on international sales by key personnel?

	Number of employees active in international sales
Top managament	______
Middle management	______
Lower echelons (secretary, order clerks etc.)	______

	Time spent on international sales and marketing			
	0-10%	11-25%	26-50%	>50%
Executive manager	1	2	3	4
Manager Technology	1	2	3	4
Manager Economy/Finance	1	2	3	4
Manager Marketing	1	2	3	4
Manager Manufacturing	1	2	3	4

16. Please name your company's three most important strengths and weaknesses.

Strengths	Weaknesses
______________________	______________________
______________________	______________________
______________________	______________________

17. What are the most challenging developments confronting your company during the next five years?

____

____

____

18. How do you view your company in the year 2000 with regard to products, markets and technology.

____

____

____

____

19. Please indicate the strategies that your company will pursue the next three to five years, by checking the most suitable alternative below. If you don't have any opinion, please erase the pertinent line.

We expand aggressively in new geographic markets	1	2	3	4	5	We will concentrate on our existing markets
We seek actively new business areas our existing	1	2	3	4	5	We will concentrate on business areas
Our investments in productive capacity will capacity mainly be carried out abroad	1	2	3	4	5	Our investments in productive will mainly be carried out in Norway
We will primarliy invest i green field plants	1	2	3	4	5	Our expansion will take place through acquisitions mainly
We want to have 100% control in our investments abroad	1	2	3	4	5	We are satisfied with minority positions in our foreign investments
It's our policy not to cooperate with Norwegian any other company in our international operations	1	2	3	4	5	We want to cooperate extens-ively with Norwegian companies in our international operations
It's our policy not to cooperate with any other foreign company in our international operations	1	2	3	4	5	We want to cooperate extens-ively with foreign companies in our international operations
We view our market expansion abroad with great degree of urgency	1	2	3	4	5	We don't have any need to rush into new markets
Our products have a generic character in international markets	1	2	3	4	5	Our products covers a narrow niche in international markets
Our ownership structure is not expected to change the next couple of years	1	2	3	4	5	We will actively seek new owner(s)/investors in the near future

Please return the questionnaire to

Institute of International Business Development
The Norwegian School of Management
P.O.Boks 580, 1301 Sandvika, Norway

Thank You for Your Kind Help!

Appendix 2
Questionnaire 2: Strategy Review 1993

1. Please indicate your company's annual sales in the period 1989-92, and indicate your 1993 budget and a vision for 1995 (mill. kr.)?

	1989	1990	1991	1992	1993 (budget)	1995 (vision)
Norway	_____	_____	_____	_____	_____	_____
Of which exports	_____	_____	_____	_____	_____	_____

2. In how many countries does your company have regular sales through established sales channels and/or customer relations in 1989 og 1993?

1989 ________
1993 ________

3.1 Below are listed 22 different strategic orientations. Could you please indicate how well each strategic alternative describes the strategy that your company has followed the last three years?

(1=Entirely adequate description of our strategy; 2=Relatively adequate description of our strategy; 3=Neither adequate nor inadequate description of our strategy; 4=Relatively inadequate description of our strategy; 5=Entirely inadequate description of our strategy).

	Entirely adequate description	*Relatively adequate description*	*Neither adequate nor inadequate*	*Relatively inadequate description*	*Entirely inadequate description*
a. We have consolidated our position within our existing customer base in Norway	1	2	3	4	5
b. We have gradually expanded our customer base in Norway	1	2	3	4	5
c. We have very rapidly expanded our customer base in Norway	1	2	3	4	5
d. We have established a presence in *selected* markets with a view to *gradually* develop sales to well defined customer segments.	1	2	3	4	5
e. We have developed a presence in *many key markets* in order to *rapidly* gain a position relative to our competitors	1	2	3	4	5
f. We have in particular furthered our relations with our existing customers and representatives abroad	1	2	3	4	5
g. Focus has been on a critical review of our customer and product portfolio in key markets	1	2	3	4	5
h. We have actively sought one major partner (abroad or in Norway) with a view to strengthen our capital base	1	2	3	4	5
i. We have actively sought one major partner (abroad or in Norway) who can contribute substantially to our marketing efforts world wide	1	2	3	4	5

j. We have expanded in Europe in order to position ourselves for the Single Market	1	2	3	4	5
k. We have developed a powerful distribution network in key markets	1	2	3	4	5
l. We have developed our marketing organisation at our head quarters in order to better be able to service international markets	1	2	3	4	5
m. We have established long term and close relations with a selected number of foreign customers in new markets	1	2	3	4	5
n. We have sought to strengthen our control with market activities in the individual export markets	1	2	3	4	5
o. We have invested a lot in deveoping new products within our traditional business areas	1	2	3	4	5
p. We have actively acquired other companies in our industry to strengthen our market position in international markets	1	2	3	4	5
q. We have actively sought to establish a position in markets where our main competitors are strong	1	2	3	4	5
r. We have actively sought to develop new customer segments for our established technology	1	2	3	4	5
s. We have actively sought to develop new products in unrelated technologies	1	2	3	4	5
t. We have established and furthered an active market information system in order to capture signals about competition and market condistions in key marekets	1	2	3	4	5
u. Possible ractions from competitors in other countries have played a signficant role when developing our international marketing strategies	1	2	3	4	5
w. We have entered into licensing agreements in order to rapidly cover market areas not being served by us.	1	2	3	4	5

3.2 Please name the three most relevant of the above strategies (from a to w) for your own strategic development the last three years? 1. _____ 2. _____ 3. _____

4. How do you regard the importance of foothold in the following markets (a market share among the three-four largest players) to the further development of your company?

	Decisive				*Unimportant*
Nordic countries	1	2	3	4	5
Germany	1	2	3	4	5
Great Britain	1	2	3	4	5
France	1	2	3	4	5
USA	1	2	3	4	5
Japan	1	2	3	4	5
Far East	1	2	3	4	5

5. Please indicate which factors have contributed the most to the development of your profitability the last thre years.

____
____
____
____
____
____

6. Please indicate the importance in your internationalisation of the following driving forces

	Decisive				*Unimportant*
a) Our home market is too small to run a profitable business	1	2	3	4	5
b) Increased competition forces the firm to go abroad	1	2	3	4	5
c) Our products and competance have an international market	1	2	3	4	5
d) We wish to spread the risk on different types of market	1	2	3	4	5
e) The organisation needs new challenges	1	2	3	4	5
f) Impulses from abroad are important for our strategy in Norway	1	2	3	4	5
g) Inquiries from foreign business people open up new opportunities	1	2	3	4	5
h) Our market share in Norway is too high to seek growth at home	1	2	3	4	5
i) EC/GATT-development forces us to position ourselves abroad	1	2	3	4	5
j) There are a host of market opportunities abroad	1	2	3	4	5

8. Which ones of these are the three most important ones? 1 _______ 2 _______ 3 ________

Thank you for your kind assistance!

Appendix 3
Questionnaire 3: Experiences from and Attitudes to Internationalisation

Please give your immediate reaction to the following statements by circling the figure that representss your opinion.

	Entirely agree	*Partly agree*	*Neither nor*	*Partly agree*	*Entirely agree*
Our products are on most features more unique than those of our competitors	1	2	3	4	5
Many people at our staff think it is more important to get home for dinner than to finish the day's work	1	2	3	4	5
Everyone in our company should know about our most important customers	1	2	3	4	5
Our leading sales people have wide	1	2	3	4	5
The higher market share, the higher prices we may charge	1	2	3	4	5
Export costs more than its worth	1	2	3	4	5
With keen price competition in our traditional markets it is better to concentrate on a few than to seek new markets	1	2	3	4	5
Our organisation is to small to carry out an active internationalisation of the company	1	2	3	4	5
Market research is a necessary evil	1	2	3	4	5
Higher risk in exporting is compensated by higher potential for profits	1	2	3	4	5
Cultural differences are of little importance when selling to professional buyers abroad	1	2	3	4	5
It is more important to have a good product at the right price than have a good knowledge of customer needs	1	2	3	4	5
It is easier to get decisions on product development than on market development	1	2	3	4	5
It is better to have one leg in many markets than to "put all our eggs" in a few markets	1	2	3	4	5
Sales offices in our key markets is the only way to achieve satisfactory control over our export activities	1	2	3	4	5
We should expect positive returns not less than two years after introduction in a new market	1	2	3	4	5
It is not necessary to spend money on market research in established markets, as we already know our customers there	1	2	3	4	5
The Board of Directors should play an active role in the internationalisation of our company	1	2	3	4	5
The cost level in Norway is too high to engage in profitable internationalisation	1	2	3	4	5
Product adaptation to each individual market is too onerous with todays keen competition	1	2	3	4	5

	Entirely agree	*Partly agree*	*Neither nor*	*Partly agree*	*Entirely agree*
Subsidies received by our foreign competitors contribute greatly to depressed prices in international markets	1	2	3	4	5
Licensing of our technology is interesting even though we run the risk of having our technology "stolen".	1	2	3	4	5
Our market share abroad is so miniscule that we do not pose a threat to our main comopetitors	1	2	3	4	5
We should have a flexible manufacturing process in order to allow us to satisfy special needs in the individual market	1	2	3	4	5
Market research is too costly relative to its worth	1	2	3	4	5
Our customers abroad have generally similar needs	1	2	3	4	5
Advertising in international markets is only for large exporters	1	2	3	4	5
Introduction in new markets requires price deductions	1	2	3	4	5
The cost level in Norway only plays a limited role in our pricing policy	1	2	3	4	5
It is always difficult to find foreign partners whom you can trust 100%	1	2	3	4	5
Working internationally is great fun	1	2	3	4	5
It is difficult to allow price reductions in one market without meeting competitive counteraction in other markets	1	2	3	4	5
The representative abroad shold take care of all the local sales and advertising work	1	2	3	4	5
It is better to invoice foreign customers in NOK	1	2	3	4	5
Our ability to adapt to local product requirements plays generally a greater role than low export price	1	2	3	4	5
It is important to achieve big market shares in our largest markets abroad	1	2	3	4	5
Joint ventures abroad leads to more griefs than benefits	1	2	3	4	5
Market research is a cheap insurance against poor decisions	1	2	3	4	5
My viewpoints have seldom any influence in internal strategy discussions	1	2	3	4	5
Our exports would make good headway, if we only could employ more sales people	1	2	3	4	5
Our representatives abroad have too much freedom to carry out marketing activities as they like	1	2	3	4	5
We should aim to be the best in our field of activity	1	2	3	4	5

	Entirely agree	*Partly agree*	*Neither nor*	*Partly agree*	*Entirely agree*
It is impossible to improve our market position as long as we are located so far from our main markets	1	2	3	4	5
There is too much detailed administration in our firm	1	2	3	4	5
The marketing department is too powerful within our firm	1	2	3	4	5
This firm should not aim at growing much bigger	1	2	3	4	5
Nationalistic purchasing practices is often difficult to tackle in our most important export markets	1	2	3	4	5
Our representatives in export markets perform poorly	1	2	3	4	5
We are so busy in our home market that we should not waste time on export activities	1	2	3	4	5
EC-1992 will give us a hard time	1	2	3	4	5
The team spirit could have been much better in this firm	1	2	3	4	5
Long term credits in export markets are a nuisance	1	2	3	4	5
We should have one set of brochures and advertising material to be used in all countries	1	2	3	4	5
A good network toward customers is more important than high quality products	1	2	3	4	5
Exports are a long term investment	1	2	3	4	5
A solid foothold in a few markets is preferable to market presence in many countries	1	2	3	4	5
Budget control is too zealous in or company	1	2	3	4	5
A product selling well i one country is seldom easily introduced in another one without substantial changes	1	2	3	4	5
Low price levels are more important than trustworthy cooperation with customers abroad	1	2	3	4	5

What is your position in the firm (function and level)________________________________

Please return to: **Handelshøyskolen BI**
Avdeling for internasjonal bedriftsutvikling
v/Solberg
Box 580
1301 Sandvika

Appendix 4

A note on methodology - From questionnaire to position in the grid.

This note indicates the rules established to locate the firms in the "Nine Strategic Windows". The procedure was carried out in two turns:

1) First the firm was located in the appropriate window, for instance "Seek niches in international markets", or "Expand in international markets". For this purpose, a number of indicators representing the three dimensions of the model were identified and given scores from 1 to 4 (for the dynamic dimension, globalisation drivers, the scores given were from 1 to 3).

2) Then the firm was located within the window through comparison with the other firms in the same window. In this instance a more detailed analysis of the answers was carried out, taking account of both the whole range of the scales (for instance 1-5 or 1-7) and more qualitatively considering the specific situation of each case firm. The ensuing result was then discussed with management of the firm and misunderstandings were weeded out, and adjustments made accordingly.

In the following, the procedure applied for the three dimensions - preparedness, globality and globalisation drivers - is described.

1) Preparedness for Internationalisation

This construct encompasses two main variables: a)international organisational culture and b) market share in reference market.

a) International organisational culture

i) International sales relative to total sales (question 1)

Score	Feature
1	0-10%
2	11-30%

Score	Feature
3	31-60%
4	61% or more

ii) Entry mode in international markets (question 2)

Score	Feature
1	Distributor and agent
2	Own sales office
3	Licensing
4	Manufacturing unit/joint venture

iii) Time spent on international sales by senior management (question 15)

Score	Feature
1	Less than 10%
2	10-25%
3	26-50%
4	More than 50%

b) Market share in reference market

i) Market share in individual markets (question 3)

Score	Feature
1	0-5%
2	6-15%
3	16%-30
4	More than 30%

For this measure account has been taken of the globality of the industry (see also sections 3.1.3 and 4.4.1).

ii) Role of company for major customers (question 13)

Score	Feature
1	Marginal supplier (6+7)
2	Medium supplier (4+5)
3	Major supplier (2+3)
4	Only supplier (1)

Adjustments to the total score arrived at have been made qualitatively on the basis of Questionnaire 3: Experiences from and Attitudes to Internationalisation. In this instance degree of proactiveness and degree of agreement within management on the following issues raised in the questionnaire has been taken into account:

Product vs market orientation
Risk preparedness
Embodiment of attitudes at "all" levels of the organisation

2) Globality of industry

This construct consists of two main variables: a) Industry structure and b) market interdependence.

a) Industry structure

i) Market share of biggest and second biggest competitor in the most important markets (question 3).

Score	Feature
1	0-5%
2	6-15%
3	16-30%
4	More than 30%

ii) International dimension of competition (question 5).

Score	Feature
1	"We never meet the same competitors in different markets" (6+7)
2	Some international competition takes place (4+5)
3	"Some competitors operate in almost all the markets" (2+3)
4	Few competitors operate in all markets (1)

iii) Number of potential and existing customers in each individual market (question 11).

Score	Feature
1	1-10
2	11-50
3	51-100
4	More than 100

b) Market interdependence

i) "Price transparency" between markets (question 5).

Score	Feature
1	Each market has individual pricing pattern (6+7)
2	Minor international "price transparency" (4+5)
3	Major international "price transparency" (2+3)
4	Counteractive pricing by competitors in other markets (1)

In addition, a qualitative characterisation of the most important international competitors were made, for instance the degree to which leading suppliers are globally oriented and have a major market share in key markets.

3) Globalisation drivers

This construct consists of three main variables. They were:

a) Number of international acquisitions in the industry (question 5)

Score	Feature
1	No mergers/acquisitions (6+7)
2	Some mergers/acquisitions (3-5)
3	Many mergers/acquisitions (1+2)

b) Homogeneity of demand (question 9)

Score	Feature
1	Essentially different markets (6+7)
2	Medium position (3-5)
3	Essentially similar markets (1+2)

c) Barriers to exports (question 8)

Each of the following barriers is rated: customs, quota, nationalism, product standards, transport, product design.

Score	Feature
1	Almost prohibitive
2	Medium position
3	Little effect on firm´s competitiveness.

The impact on industry globality of the *future development* of these variables were qualitatively assessed. Together with the respondents this factor was then juxtaposed on the globality dimension in order to capture the expected future position of the industry on the globality continuum.

Appendix 5

Questionnaire 4: Survey on International Strategies (follow up study).

1. Questions on the international sales and marketing of the firm

1.1 To approximately how many countries do you have regular sales? ________

1.2 Please indicate your three most important export markets (countries). (We will later in the questionn resume to these countries and call them Market 1, Market 2, Market 3).

Market 1 __________ Market 2 __________ Market 3 __________

1.3 Your share in your most important markets	*Insignificant*	*Low*	*Medium*	*High*	*Dominant*
- Norway	1	2	3	4	5
- Market 1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

1.4 How are you represented in your most important markets?	*Agent, distributor*	*Direct sales*	*Sales office*	*License/ Joint vent.*	*Own prod.*
- Norway	1	2	3	4	5
- Market 1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

1.5 Is it the HQ or your local representative who carries out the sales/marketing work locally?	*The rep does most of the work*		*We share the work w/the rep*		*We do most of the work ourselves*
- Norway	1	2	3	4	5
- Market 1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

1.6 To what extent would you say that existing customer/supplier relations block your access to the individual markets?	*To a great extent*		*To some extent*		*Not at all*
- Norway	1	2	3	4	5
- Market 1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

1.7 How many times per year do representatives from your firm meet with your most important customers abroad (please circle)?	Never	1-2 times	3-5 times	6-10 times	> 10 times

1.8 Please indicate the importance in your internationalisation of the following driving forces

	Decisive				*Unimportant*
a) Our home market is too small to run a profitable business	1	2	3	4	5
b) Increased competition forces the firm to go abroad	1	2	3	4	5
c) Our products and competance have an international market	1	2	3	4	5
d) We wish to spread the risk on different types of market	1	2	3	4	5
e) The organisation needs new challenges	1	2	3	4	5
f) Impulses from abroad are important for our strategy in Norway	1	2	3	4	5
g) Inquiries from foreign business people open up new opportunities	1	2	3	4	5
h) Our market share in Norway is too high to seek growth at home	1	2	3	4	5
i) EC/GATT-development forces us to position ourselves abroad	1	2	3	4	5
j) There are a host of market opportunities abroad	1	2	3	4	5

1.9 Which ones of these are the three most important ones? 1 ______ 2 ______ 3 ______

1.10 In which market areas does your firm have a regular sales activity?

Scandinavia	West Europe	East Europe	USA	Far East	Japan	Other

1.11 Which ones(s) of the following is (are) the main customer group(s) for your products/services(1=most important, 2= second most important etc.)?

Industry ___ Trade ___ Government ___ "Man in the street" ___

2. Questions on the competitive situation of the firm

2.1 How many competitors operate in your most important markets?	*More than 20*	*11-20*	*6-10*	*3-5*	*1-2*
- Norway	1	2	3	4	5
- Market1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

2.2 Could you indicate the approximate market share controlled by the four most important players within your product area in your markets?	*0-5%*	*6-15%*	*16-30%*	*31-50%*	*Over 50%*
- Norway	1	2	3	4	5
- Market 1	1	2	3	4	5
- Market 2	1	2	3	4	5
- Market 3	1	2	3	4	5

2.3 Please indicate the name, location of head quarter and approximate sales of your five most impor competitors *counting all your markets* ?

Name of competitors	*Location of head quarter*	*Approximate sales* Under 100 mill kr.	*101-500 mill kr.*	*501-1.000 mill kr.*	*1-10 bill. kr.*	*Over 10 bill. kr.*
1. ________	________	1	2	3	4	5
2. ________	________	1	2	3	4	5
3. ________	________	1	2	3	4	5
4. ________	________	1	2	3	4	5
5. ________	________	1	2	3	4	5

2.4 In approximately how many countries do these competitors have a regular business operation?	*Only 1-2 markets*	*3-5 markets*	*6-10 markets*	*11-20 markets*	*Over 20 markets*
- Competitor 1	1	2	3	4	5
- Competitor 2	1	2	3	4	5
- Competitor 3	1	2	3	4	5
- Competito 4	1	2	3	4	5
- Competitor 5	1	2	3	4	5

2.8 Which one of the below competitive situations does best describe the one of your firm?

- Competitors operate generally only within national borders	1
- There is a certain competition across national borders	2
- International competition is conspicuous in selected markets	3
- The same competitors operate normally in all the markets	4

2.9 To what extent would you say that the price level for your products are similar from one country to the other?	Prices vary a lot	Prices vary somewhat	Prices are generally the same
2.10 To what extent do you experience that competitors retaliate price rebates in one foreign market by rebates in other markets (incl. your home market)?	Never	Sometimes	Very Often

2.11 Which are the three most important (from 1 to 3) competitive strengths compared to your largest competit

Product technology	____	Price level	____
Application know how	____	Market network	____
Product quality	____	Service	____
Supply flexibility	____	Financial strength	____
Supply punctuality	____	Product development	____

3. Questions on special features in the markets
Listed below are a number of statements concerning markets, competition and the development of these. Please circle the most relevant alternative.

3.1 **Local cultural** conditions always lead to extensive adaptation of your products to each individual market

3.2 We see great changes toward more similarity between the markets reducing the need for "cultural" product adaptation

3.3 **Local standards** lead to extensive adaptation of your products to each individual market

3.4 We see great changes toward more similarity between the markets concerning standards reducing the need for product adaptation

3.5 The trade policy development in general and in individual countries will facilitate the sale of our products the next five years

3.6 Great changes in our industry as a consequence of strategic alliances and joint ventures will take place the next five years

3.7 Technological break throughs will greatly influence the competitive situation in our industry the next five years

3.8 The development of cheaper and more effective communication will increase our opportunities in international markets the next five years

3.9 Our company's customer/end user structure generally is very fragmented with many potential customers in each market

3.10 There will be a distinct conecentration of the industry's customer/end user structure the next five years

3.11 Our company's distributor structure generally is very fragmented with many potential distributors/dealers in each market

3.12 There will be a distinct conecentration of the industry's distributor structure the next five years

3.13 To what extent (1=to a great extent; 2= to some extent; 3=to a limited extent or not at all) would you say that the following factors constitute real barriers to entry for foreign suppliers in your industry in the countries mentioned below?

Factors	*UK*	*France*	*Countries* *Germany*	*USA*	*Japan*
Standards and test methods	___	___	___	___	___
Government industry subsidies/support	___	___	___	___	___
Traditions, technical sulutions, local taste	___	___	___	___	___
Industry structure, cross ownership/relations	___	___	___	___	___

4. Questions on strategies in international markets

4.1 Below are listed 22 different strategic orientations. Could you please indicate how well each strategic alternative describes the strategy that your company has followed the last three years?

(1=Entirely adequate description of our strategy; 2=Relatively adequate description of our strategy; 3=Neither adequate nor inadequate description of our strategy; 4=Relatively inadequate description of our strategy; 5=Entirely inadequate description of our strategy).

	Entirely adequate description	*Relatively adequate description*	*Neither adequate nor inadequate*	*Relatively inadequate description*	*Entirely inadequate description*
a. We have consolidated our position within our existing customer base in Norway	1	2	3	4	5
b. We have gradually expanded our customer base in Norway	1	2	3	4	5
c. We have very rapidly expanded our customer base in Norway	1	2	3	4	5
d. We have established a presence in *selected* markets with a view to *gradually* develop sales to well defined customer segments.	1	2	3	4	5
e. We have developed a presence in *many key markets* in order to *rapidly* gain a position relative to our competitors	1	2	3	4	5
f. We have in particular furthered our relations with our existing customers and representatives abroad	1	2	3	4	5
g. Focus has been on a critical review of our customer and product portfolio in key markets	1	2	3	4	5
h. We have actively sought one major partner (abroad or in Norway) with a view to strengthen our capital base	1	2	3	4	5
i. We have actively sought one major partner (abroad or in Norway) who can contribute substantially to our marketing efforts world wide	1	2	3	4	5
j. We have expanded in Europe in order to position ourselves for the Single Market	1	2	3	4	5
k. We have developed a powerful distribution network in key markets	1	2	3	4	5

l. We have developed our marketing organisation at our head quarters in order to better be able to service international markets	1	2	3	4	5
m. We have established long term and close relations with a selected number of foreign customers in new markets	1	2	3	4	5
n. We have sought to strengthen our control with market activities in the individual export markets	1	2	3	4	5
o. We have invested a lot in deveoping new products within our traditional business areas	1	2	3	4	5
p. We have actively acquired other companies in our industry to strengthen our market position in international markets	1	2	3	4	5
q. We have actively sought to establish a position in markets where our main competitors are strong	1	2	3	4	5
r. We have actively sought to develop new customer segments for our established technology	1	2	3	4	5
s. We have actively sought to develop new products in unrelated technologies	1	2	3	4	5
t. We have established and furthered an active market information system in order to capture signals about competition and market condistions in key marekets	1	2	3	4	5
u. Possible ractions from competitors in other countries have played a signficant role when developing our international marketing strategies	1	2	3	4	5
w. We have entered into licensing agreements in order to rapidly cover market areas not being served by us.	1	2	3	4	5

4.2 Please name the four most important ones of the above strategies (a-w) ? 1____ 2____ 3____ 4____

5.Questions on ownership, financial status, income and profits

5.1 Please indicate the ownership situation of your firm by circling the relevant alternative(s)?

	Percent of share capital				
	0-10	*11-25*	*26-50*	*51-90*	*91-100*
Management	1	2	3	4	5
Family owned	1	2	3	4	5
Norwegian private holding/concern	1	2	3	4	5
Foreign holding/concern	1	2	3	4	5
The Norwegian State	1	2	3	4	5
Financial institutions	1	2	3	4	5
Free shares	1	2	3	4	5

5.2 If the firm is (part-)owned by a concern, to what extent do you take advantage of/have access to the mark network/customers and competence of the mother company?

	Decisive				*No significance*
Role for marketing	1	2	3	4	5
Role for manufacturing	1	2	3	4	5
Role for financing	1	2	3	4	5
Role for technology competence	1	2	3	4	5
Role for management competence	1	2	3	4	5

5.3 Please indicate your company sales the last three years, and give a "vision" of your sales in 1998 (millions c kr. in approximate numbers)?

	Total sales	*Of which export/international sales*
- 1990	________	________
- 1991	________	________
- 1992	________	________
- Vision 1998	________	________

5.4 Please indicate equity ratio and profit margin the last three years.

Equity ratio	*Negative*	*0-10%*	*11-20%*	*21-30%*	*31-40%*	*Over 40%*
- 1990	1	2	3	4	5	6
- 1991	1	2	3	4	5	6
- 1992	1	2	3	4	5	6

Profit margin	*Negative*	*0-3%*	*3,1-6%*	*6,1-10%*	*10,1-15%*	*Over 15%*
- 1990	1	2	3	4	5	6
- 1991	1	2	3	4	5	6
- 1992	1	2	3	4	5	6

5.5 Please indicate which factors have contributed the most to the development of your profitability the last three years.

____

____

____

5.6 How would you characterise your firm's access to financial and management resources?

	Very good access					*Very poor access*
Long term risk capital	1	2	3	4	5	6
Market oriented managers	1	2	3	4	5	6

5.7 If you have any other comments pertaining to the questions raised in this questionnaire, please use a separate sheet of paper.

Thank you for your kind assistance