



THE COMPETITIVE REPOSITIONING OF SMEs WITHIN THE PROCESS OF INTERNATIONAL COMPETITION

Maria Rosaria Marcone

Department of Management and Industrial Organization, Università Politecnica delle Marche, Italy

Abstract

This paper aims to analyze how the international process of competition among SMEs is increasingly based on the localization of various activities on a global scale, with particular reference to production, marketing and R&D. This rule also applies to firms from the Marche area, who are compelled to elaborate new strategies of international expansion. They are therefore induced to transform their presence in foreign markets from exporters to insiders, in order to successfully realize a more competitive position within international business markets, in other words, within the 'global supply chain'. The study seeks to understand the motives for the internationalization of the SMEs, a form of internationalization that involves production activities and objectives regarding competition and the market. It is important to be aware that the decision making process needs to be rapid, in a context in which information is incomplete and partial, and where decisions are subject to continual modification.

Keywords: International Strategies of SMEs, Marketing Business to Business, Supply Chain.

1. INTRODUCTION

The paper aims to show the results of research on the most recent evolution in the international development of small and medium enterprises, belonging to various areas of the mechanical and electronics industry of the Marche Region in Italy¹. The objective of this empirical observation is to identify the evolution of the

¹ The work presents the partial results of research that is still developing. This can be seen in terms of the many conceptual categories proposed by the ample international literature regarding the strategies of internationalization of industrial firms. Many of the economic phenomena observed have

Correspondence Address: Maria Rosaria Marcone – Department of Management and Industrial Organization – Università Politecnica delle Marche – P.le Martelli, N 8, Ancona, 60121, Italy.
E-mail: m.r.marcone@univpm.it

role that Italian SMEs play in the context of international competition (Pepe, 1988; Grandinetti and Rullani, 1996; Caroli, 2000; Varaldo, 2004 and Silvestrelli, 2005). The aim of the work is also to verify the existence of new models of governance (or maybe models of governance that are less influenced by the phenomena of path dependence), adopted by small-medium size enterprises that are undertaking complex forms of internationalization. Starting from the empirical analysis, this work also aims to contribute to an understanding of the features and the functioning of the relational environment in which the need for internationalization is created. In other words, the work seeks to understand what new economic motivations push the SMEs into attempting new forms of very challenging internationalization processes from the financial, technical, organizational and marketing points of view. As far as the methodology adopted in the development of the research is concerned, I would like to underline the fact that, during the different phases, both inductive and deductive methodologies are used, with a mainly 'positive-interpretative' approach. During the course of this empirical research, seventy-five firms of the Marche Region are studied. The firms belong to different compartments of two sectors: mechanics and electronics. The collaboration of the firms provides a unique possibility to undertake 'on site' research; being internationalized, they allow the researcher to study the critical factors of success and the development perspectives of the firms that compete in the international scenario². The work is structured as follows: in the first part international strategies are analyzed, with particular reference to the forms of internationalization of production. Attention is then given to the role of management in the marketing area. Management can in fact manage complex relationships with industrial international customers, evaluate the reaction of the competition, and most of all understand the supply structure in the sector or sub-sector to which the firm belongs. Finally the opportunities and challenges offered to the firms by the restructuration processes of 'global supply chains' are studied.

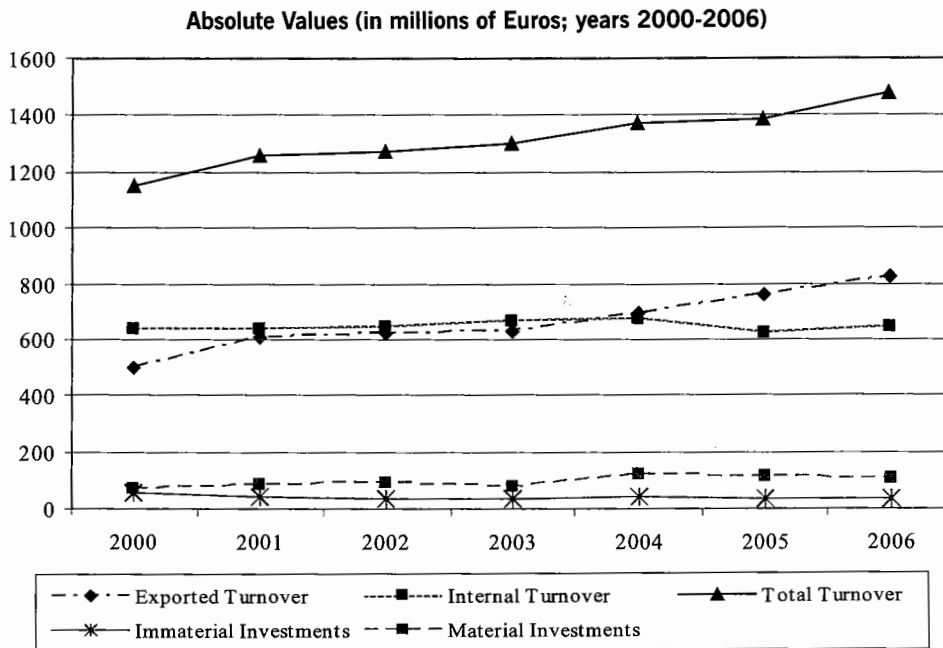
been interpreted on the basis of the following research fields: *Transaction Cost Internalization* – TCI (Buckely and Casson, 1976; Rugman, 1981 and Hennart, 2007), *Organization Learning Perspective* (Barkema and Vermuelen, 1998 and Padmanabhan and Cho, 1999); the theory of the growth of the firm (Penrose, 1959; Wernerfelt, 1984 and Barney, 1991) strongly connected to the «Theory of Foreign Direct Investment» (Hymer, 1976; Caves and Mehra, 1986; Dunning, 1988 and Markusen, 2002); 'institutional theory' (Prahalad and Doz, 1987; Rosenzweig and Singh, 1991; Kostova, 1999; Harzing, 2002 and Witt and Lewin, 2007).

² A more in depth study of fifty-two firms led to the creation of a database in which a lot of information was collected, including inherent economic variables that are not written in the business balance sheet (engineering activity resources, introduction of new technological processes, upgrading of existing technologies, etc). These activities have been evaluated with the help of the management. The firms are of medium size according to the parameters of Mediobanca and Unioncamere (2004): they have between 50 – 499 employees and a turnover of between 13 and 260 millions of Euros.

2. SMEs – INTERNATIONAL OPENING

Many of the firms of the sample investigated make a significant amount of their turnover from exports. From the survey it emerged that some firms started their development strategy in the foreign market in a period in which internal demand was decreasing (Figure 1).

FIGURE 1

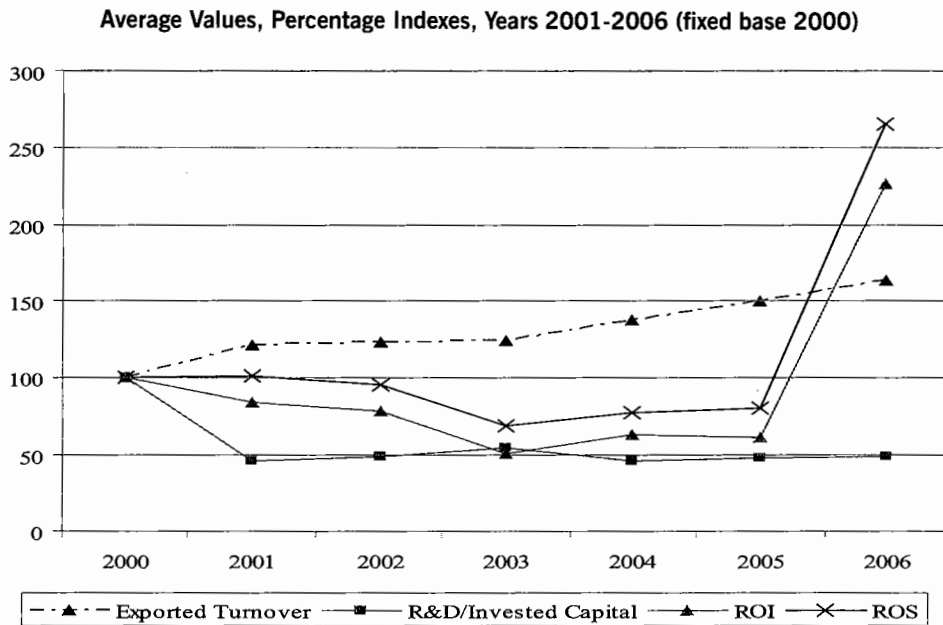


Source: Based on the Empirical Survey.

Furthermore it can be observed that this trend did not reverse when internal demand rose again: the entrepreneurial and managerial nucleus did not believe that internal and foreign supply were contrasting factors of growth on which to rely in order to pursue satisfactory developing strategies. It appears clear, over all, how the implementation of the turnover coming from the markets abroad determines an increasing international connotation of those enterprises that can be defined as 'export oriented'. The attention given by the buyers, both in the Marche Region and abroad, to the suppliers from the Marche Region derives from the evaluation of specific competitive factors that the sub-suppliers of the SMEs possess. Above all one can note the capacities of the sub-suppliers, who have distinctive skills that have matured inside innovative firm specific processes. Considering the fact that the firms dedicate many resources (financial and human capital, etc.) to the

development of the complex cycle of «*design-engineering-production*», which is always renewed at each process of negotiation between the supplier and the buyer, it seemed of particular interest to analyze the entity of R&D. We used the index «R&D/ Invested Capital», which indicates the existing relationship between the invested resources in research and development and the resources globally invested (invested capital). From the observation of the data of the empirical survey, it emerges that the firms examined invest very few resources in the activity of research, in relation to the global invested capital in the overall management of the firm. The reliability of this parameter is deeply influenced, however, by the difficulty that the firms have in evaluating what is classified as research and what is classified as being a part of other costs (workforce, substituting parts, etc.) (Figure 2).

FIGURE 2



Source: Based on the Empirical Survey.

From Figure 2 it is also possible to discern the existence of a relationship between the degree of emphasis on research (R&D/Invested Capital) and the improvement of revenue (ROS and ROI).

3. THE INTERNATIONAL PRODUCTION STRATEGIES OF THE SMEs

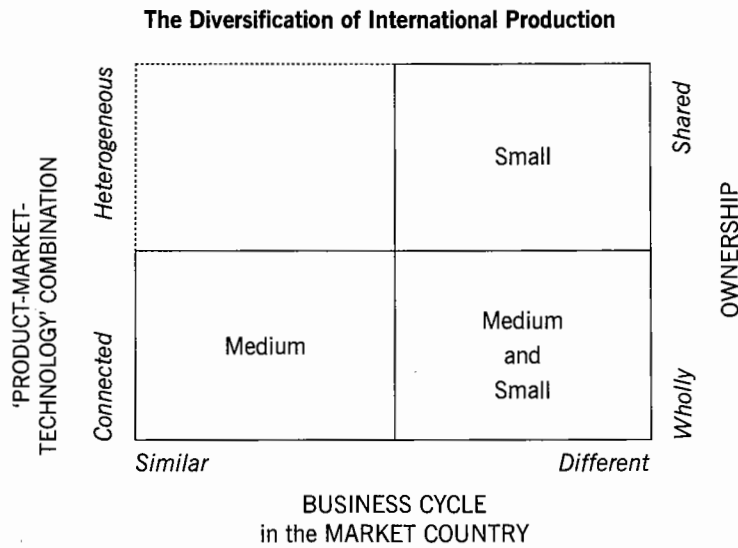
In order to remain competitive, even smaller sized firms sooner or later have to face the new and complex challenge of internationalization. The benefits from production of manufacturing plants owned abroad have to be added to domestic production. In this way we can explain the diffusion of multinational expansion strategies in a growing number of industrial Italian firms of the most diverse kind, from the most diverse sectors and also from the most heterogeneous *systems of governance*. The recourse to forms of internationalization of a large percentage of the firms investigated underlines the fact that undoubtedly the small and medium sized firms have acquired a better knowledge of the international environment. They can therefore use the experience gained abroad in order to elaborate further strategies related to future investments in the same or in other countries. The investments dedicated to the internationalization of production activities stem from the need to pursue different competitive strategies, which are analyzed as follows: a) to enter international market segments that are characterized by a strongly growing demand; b) to preserve the demand from industrial customers who have clearly expressed a need for the product and have transferred their industrial premises to new production sites in Eastern Europe; c) to transfer production sites to the countries of South East Asia, which, as the centre of the 'supply system' for electronic components, makes it possible for the firms that establish themselves there to acquire and earn shares of world demand.

a) Entering International Segments with a Strongly Growing Demand

Production investment abroad is made with the purpose of producing a new line of goods to be collocated in segments (which are economically less favourable than a market-country) that present a large and fast growing potential demand that is quickly directed at 'low range' products. The motives behind this strategic choice are due to positive evaluations from the managers of the marketing areas: first of all, the attractiveness of the new segment in that market-country; and second, the possession of specific advantages that enable the new segment to be tackled successfully, even if it is an entirely new market, in which mostly local particularly aggressive competition operates (*Figure 3*).

International managerial literature has already analyzed the geographical diversification of the selling markets (diversification of the 'Country Portfolio') (Shapiro, 1978) and the localization of the different productive activities in different market-countries (Kin *et al.*, 1993) and the effect that they produce on industrial firms. The firms investigated recur more and more frequently to foreign production investments whose purpose is to add new "product-technology combinations" to

FIGURE 3



the existing lines. When this happens, the international development strategies use forms of diversification of the production activities that end up generating new *business units* (growth of the 'business portfolio') on a global scale. The economic phenomenon that follows is not merely a 'dispersion of the assets', but a real 'diversification of the firm assets' (Goerzen and Beamish, 2005). The firms abroad are real divisions created with the purpose not of exploring, but of better exploiting the *know how* that the firm has. In the medium period though, one can notice that especially the smaller firms almost always meet concrete difficulties both in employing the *know how* gained with experience in the domestic R&D and in adapting it to local needs. It is interesting to observe that small enterprises do not differentiate from those of medium dimension as far as the choice of which foreign market-country to make the investments in is concerned: both categories decide to operate in countries that have a stage of economic development (*business cycle*) that is substantially different from the domestic country. From the empirical research it emerges that the larger sized firms produce other combinations of 'product-market-technology' in their production plants, which turn out to be strictly correlated to those produced in the domestic plants.

The competitive objective pursued by foreign based plant production of a combination of a correlated domestic 'product technology' is represented by the opportunity to acquire the many local resources under favourable economic conditions (materials, components, etc.) and furthermore to have access to the most adequate forms of commercial intermediation. The foreign property subsidiary

(captive affiliate) allows, in fact, the enterprise to limit costs related to research and permits the evaluation of suppliers and other commercial partners. Furthermore, it is flexible in the choice of the external resources (local) that appear to be less expensive. Obviously the creation of a wholly owned subsidiary is a choice that reveals itself to be extremely rigid in situations in which the company headquarters have to invent new ways of forming a presence in the foreign market. The small and medium sized firms that choose to diversify the 'Country-Portfolio' in which to locate their subsidiaries - the subsidiaries sometimes specializing in the production of 'product-technology' combinations that differ from domestic combinations - initiate, almost unawares, a process of learning (technological, organizational and of market) that increases the profitability of the international strategies of the group (Hitt *et al.*, 1997 and Ruigrok and Wagner, 2003).

b) New Localization of International Demand

Foreign productive investment is carried out by those firms of the Marche Region that want to continue to preserve the demand that now comes from abroad, from industrial customers who have recently transferred their productive activity. One can note the fact that the plants abroad do not substitute those of the domestic arena: the productive dimension is broadened and there is no risk for the occupational level on the original production site (or industrial district). The mechanical zone of the Vallesina has begun a path of competitive repositioning. The most evident form of this – and also the most controversial due to the potential negative effects on the local economies – is the delocalization of production. Modification to the structure of demand in the area of mechanics has recently been the result of internationalization strategies undertaken by medium-small sized sub-suppliers that are historically rooted in the area (district area). They follow the internationalization strategies formulated by medium to large sized buyers mostly belonging to the home appliance sector, albeit some decades later. At this point the key role of the sub-supplier firms of the mechanical sector in the process of international reorganization of the local productive system appears clear.

The strategy of internationalization of production by means of FDI in production is adopted by firms that work on behalf of a third party, operating in departments of the mechanical sector, and sometimes also belonging to precision mechanics, which is characterized by forms of market competition and by a potential technical dismembering of the productive cycles. In particular it appears important to note that this could bring about the potential technical de-fragmentation of production cycles both of customers and supplier firms that are located in the same area, and this does not influence the international decentralization of production activities that has already begun. The economic operators belonging to the same domestic

productive zone (or industrial district) – both buyers and sub-suppliers – decentralize (or delocalize) the entire work cycle in the new plants owned abroad and in the new industrialized areas (SEZ – Special Economic Zones) of countries such as Poland, Romania and the Czech Republic. The customer firms, even though they transfer their own activities to new plants localized in areas where there is a strong industrial concentration, do not desire to substitute the local sub-supplier, who from the beginning of the economic partnership has offered a personalized service-product that is fully tailored to the needs of the customer. The recourse to new suppliers, localized in the newly constituted SEZ, would imply specific investments – particularly of intangible resources – not only in order to reduce the risk of opportunistic behaviour, but especially in order to grant the correct production activity of the outsourcer. It must not be forgotten that the criteria guiding the supplying firm with regard to the area in which to place the new production plant are commercial. The area is chosen with the objective of becoming part of the supply chain nearest to the industrial customer (*supply chain proximity*).

c) *FDI as an Opportunity for Repositioning within the System of International Supply*

Among the SMEs of the Marche Region there are firms working in the field of electronic components that, inspired only by a 'resource seeking' orientation, began to make production investments abroad a few years ago in order to utilize specific 'delocalization advantages' (such as lower labour costs and lower costs of raw materials and materials in general). These advantages could only be acquired by delocalizing the productive activities in other countries. After having adopted such an internationalization strategy, which is realized through cooperation agreements under the form of joint ventures, they are able to operate successfully as producers and as sellers in the 'supply country-markets' of South East Asia, which constitute the macro-geographic area in which the 'system of supply' of electronic components is localized nowadays (Marcone, 2005).

4. BUSINESS MARKETING STRATEGIES

4.1. The Strategic Role of the Activity of Industrial Marketing

It has been observed that only in the largest firms is the marketing area developed at an organizational level, even though, in many cases, the marketing activities are carried out by full time marketers with technical skills rather than economic, managerial skills. As far as the SMEs are concerned, it is not only their

small dimension that confers them with appraisable competitive advantages that can be pursued in a strategic and productive sense. Indeed, not only can the amplification of the markets at an international level and the enhancement of intellectual capital and of the know how of the SMEs be placed in the hands of the production activities, but the technical-constructive knowledge must also be transferred to the other business activities (e.g., purchasing, distributive logistic and marketing). This way, it can be involved in the improvement process of the product features and the services offered. Consequently innovative elements of industrial marketing can increasingly be found in the market factors (demand level, geographic localization of the markets that express that demand, the purchasing behaviour of the industrial users, and the process of interaction between the users and the producers) rather than only in the features of the exchanged product. Marketing is given the task of studying the changes in international competition, both in the sector to which the firm belongs and in the business markets. As a result in recent years the firms from the Marche area have modified the content of the strategies and of the features of their organizational structure in order to guard new 'interstitial spaces' (or micro-segments) in the international markets. This new and more favourable competitive positioning in the international business markets has been successfully achieved by the firms that have managed to mutate their own positioning within the 'global supply chain'. It was their own ability to identify in which segments to operate, discovered in particularly critical years when the whole supply international system was adjusting, that allowed the small firms to create differential assets in the competitive context. This behaviour allowed them to take advantage of that competitive differential which increased the attractiveness of some segments of that sector while increasing the inter-sectorial barriers (mobility barriers) that were an advantage for them. The latter would make the entrance of potential new competition more difficult, this new competition being essentially represented by firms belonging to other segments of sectors or stages of international supply chains.

In this text we want to focus our attention on the fact that when analyzing business decisions, both those strictly strategic and those more markedly operative, it must be borne in mind that there basically exists a substantial distinction between the positioning of the product of a given segment of the international business markets and the competitive positioning of the firm inside a given economic and competitive world context. The former normally depends on the capacity of the product to satisfy the needs and the modality of consumption prevailing in a particular market segment, both national and transnational, while the latter refers to the positioning that the firm has in respect to the competitors in the economic space of reference (market-product, strategic group, compartment or industrial sub-sector).

4.2. Multiple Segmentation and Down Selling Strategies

It has been observed that many firms, pushed by the will to increase profit, decide to face new segments of the world market by offering less valuable products, but at a more suitable price to satisfy the needs of less demanding customers and those with less spending power. The adoption of marketing strategies aiming to support down selling modifies market positioning, but positioning in the economic space of origin remains the same. The firms that make this choice have already decided to face such competition, belonging to other economic spaces or competitive areas that already sell in those market segments. The firms from the Marche area of this kind retain and improve their competitive positioning in their original (or historical) sphere, even if they currently prefer to adopt market strategies that lead to a 'multi-positioning' in different segments of the global market. Usually once the firms have obtained a niche positioning, they want to expand and start to produce new products that conform to the needs of the new international segments. These products differ substantially from those traditionally produced by the firms and from those that characterize the district area they belong to. We can therefore notice a propulsion towards change, or rather towards reinforcement of the competitive international position. This can be explained in the following ways: in the plurality of market-Countries served, they continue to be satisfied by the needs of the users belonging to the niche segment and, thanks to the additional lines composed of different products, the firm can respond to the need expressed by the users belonging to the new market segments. It appears clear that these segments of new acquisition can enable the firm to gain an effective positioning in a very short period in market-countries that are in rapid development. It is interesting to observe that the firms that produce instrumental goods are more able to position themselves for a wider market in order to reap all the possible scale advantages from their R&D and distributive activities, considering that their real production activity has been thought out to predispose personalised plant solutions for each possible order.

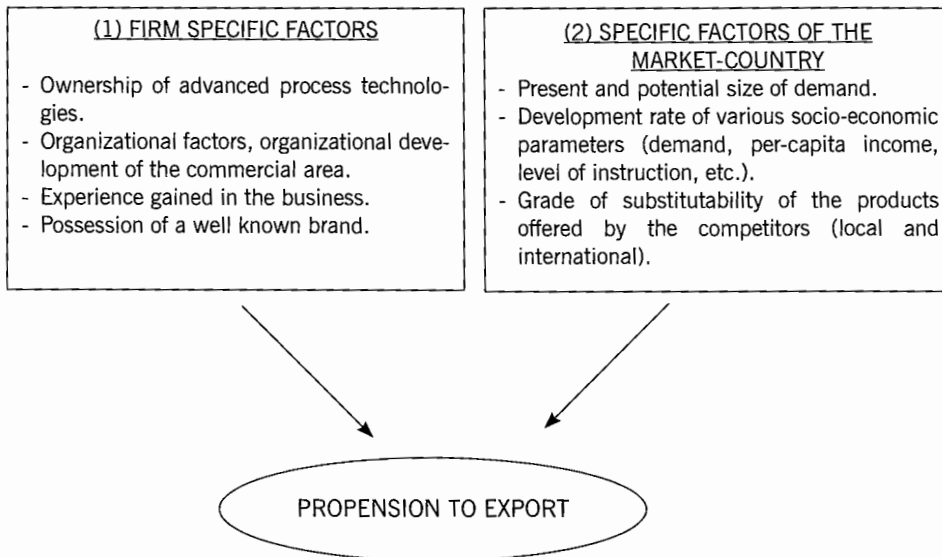
5. POSITIONING WITHIN THE SYSTEM OF INTERNATIONAL SUPPLY

It is particularly interesting to notice that many firms are able to perceive, almost always accurately, and choose their own appropriate positioning even before segmenting the market and positioning the product. We want to emphasize that the firms of the sample, even though not large, have valuable know how, and they have, without even realizing it, in time developed good skills at evaluating their competitive positioning in the sphere of their market segment. Furthermore they have developed the capacity to modify the segment in case of the entry of

new foreign competitors. However, despite such ability, they do not place enough importance on the identification of the structural features of the sector segment (form of market, concentration percentage, etc.) in the short term. Their main objective is to reach the 'market objective', in other words to capture the demand of the foreign markets that show a strong growth trend: the main marketing choice is to identify the kind of product to develop, produce and sell. In other words the main objective, if not exclusive objective, is to exploit the effective and potential demand, preferring to make positioning choices related to the product rather than segmentation choices regarding one or more foreign markets. This has brought about the following situation: since the early years of the 2000, in the smaller firms the tendency to export to foreign target-markets was mainly disconnected from the analysis of their attractiveness, because the firms thought that success could only be derived from the consideration of their own strong points (*Figure 4*).

FIGURE 4

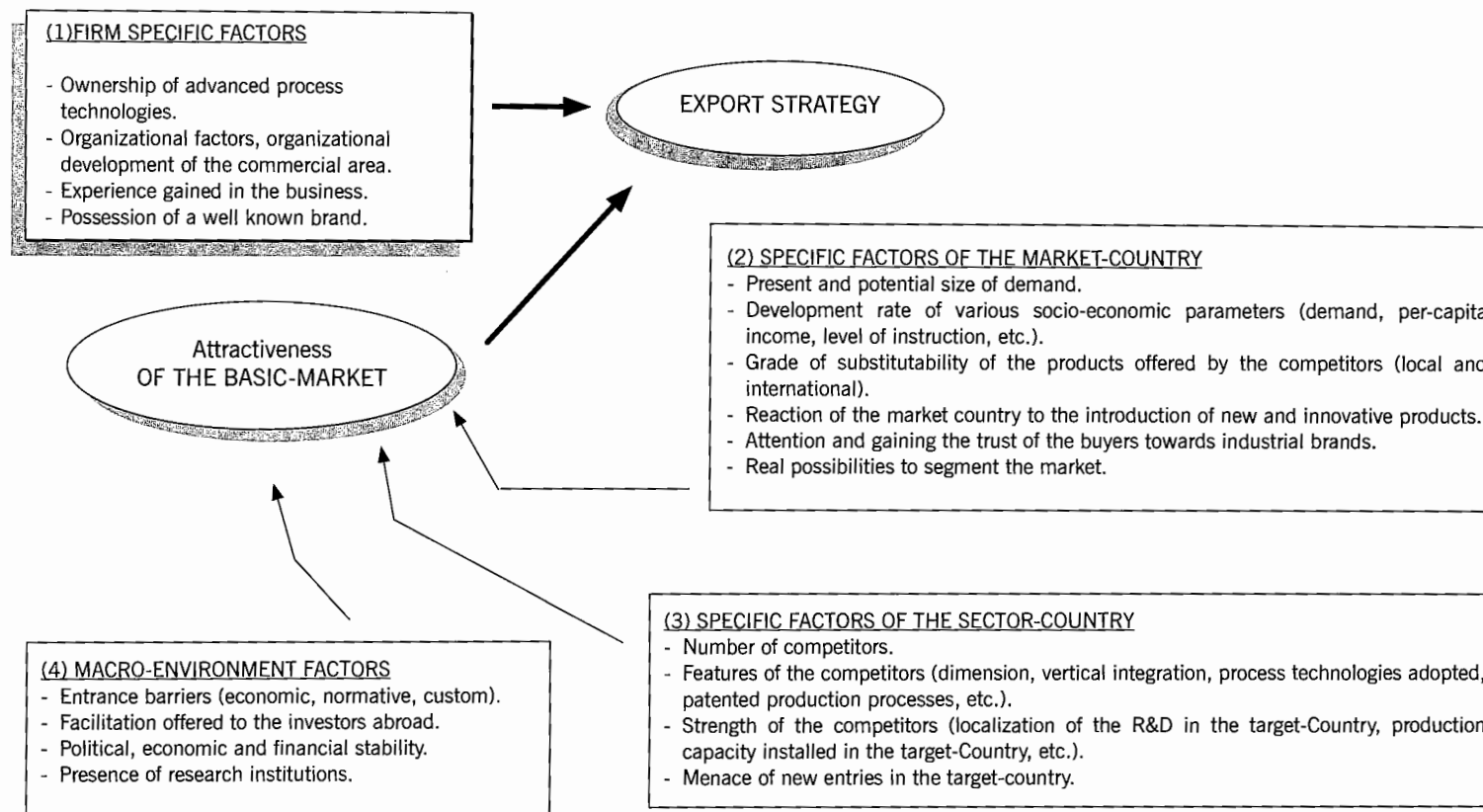
Export Strategies of the SMEs



In fact the firm specific factors (1) had an important role in determining the willingness to face new foreign markets; only rarely were other factors - such as specific factors of the market-country (2) - taken into consideration. The idea of managerial strategies is not very widespread even today. A managerial strategy involves the capacity to formulate export strategies on the basis of a more complex evaluation of the target-country in order to determine the degree of attractiveness (*Figure 5*).

FIGURE 5

Evaluation of the Foreign Market-Objective



Source: Our Research.

Nowadays, since they operate on business to business markets, even small firms must continuously and accurately research the attractiveness of each market-country (new or existent) in deciding whether to become or remain as operators able to produce and sell successfully in the international field. This is done through the analysis of the 'specific market factors' (2) of the 'macro area' (4), as well as the identification and the study of those specific 'sector-countries' (3).

6. THE CHALLENGES AND THE OPPORTUNITIES WITHIN THE 'SYSTEM OF INTERNATIONAL SUB-SUPPLY'

6.1. The International Propensity of the SMEs

The international process of competition is increasingly based on the localisation of various activities on a global scale. This rule also applies to firms of small and medium dimensions. In consequence the firms from the Marche area are compelled to elaborate new strategies of international expansion. They must transform their presence in foreign markets from exporters to insiders. This choice to modify the modality of competing on a global scale appears to be the best path to pursue from now on in order to seize further competitive opportunities constituted both by the development of sales and by the possibility of benefiting from the 'resources' with which each Country is endowed. The firms of the Marche area that deal with mechanics and electronics show a global propulsion towards internationalization, hence they are widening their own productive and organizational structures on a global scale. They can no longer adopt growth strategies imposed by contingent situations (technical-organizational structure, financial limitations, family succession, international globalization); they are called to deal with challenging and risky paths of dimensional development and of growth of managerial performance parameters that were unthinkable a few years ago. On the other hand, the fact that the new production structure can satisfy a continuously growing demand generates a strong impulse towards the expansion of production capacity in the supply firms of the Marche area, which, on a global level has become increasingly multiplant and multilocalized. The presence of production activities and of marketing activities in the foreign markets appears important not only in order to develop relations with the local industrial customers, but also to build new relationships with other economic partners (supply firms, intermediaries, research centres, etc.). This presence abroad becomes the basis for the competitive performance of the firm abroad (turnover, market share, income generation) and influences the strategies of the home firm (Andersson *et al.*, 2005).

Part of the international managerial literature maintains that recourse to a strategic alliance represents a strategic choice for firms that want to increase specific assets, even inside various forms of partnership (Kogut, 1988 and Covin and Miles, 1999). During the empirical survey it was observed that only firms of a larger dimension are able to identify the right partners with which to start forms of cooperation in order to manage together the specific assets. During the empirical survey the importance of the role of the firms owned abroad emerged, not only in the process of application and use of larger production scale of the knowledge coming from the domestic plant, but also in the process of return, which can become dynamic thanks to the capacity of the subsidiary to absorb new knowledge to transmit to the domestic plant.

6.2. The Life Cycle of Strategic International Alliances

If we observe the sequence with which the firms initiate the investment strategies abroad, it emerges that different entrance modalities are chosen. These modalities confirm the results of some international business researchers (Chang and Rosenzweig, 2001), according to whom the path of entrance strategy depends on the investor's previous experience: in the first phases of development forms of joint venture are preferred; later on, as experience grows, partially direct investment become direct investments with full ownership. For the vast majority of the firms we investigated, the process of internationalization was not the result of continuous incremental decisions. In some cases the firms skipped the exportation stage, passing directly to international production. In other cases from the beginning conspicuous resources were invested, and later reduced. A lot of firms started the process of internationalization by concomitantly positioning themselves in different countries, using the same economic effort and strategy³. We would also like to note that some firms were 'born global', and this happened at a time in which the

³ Undoubtedly cultural difference also deeply influences the kind of entrance chosen (Hofstede, 1980; Kogut and Singh, 1988; Shenkar, 2001 and Lee *et al.*, 2008). The problem of the cultural distance of the hosting country cannot be compensated by having gained previous experience of ownership abroad. In some studies it has been seen that the capability gained in making projects and in managing firms owned abroad - both in the case of full ownership or shared ownership - reduces the costs and the uncertainty for further investments in culturally different countries (Cho and Padmanabhan, 2005). During the empirical survey we found that only the bigger firms of the sample that have an internal organizational structure able to manage the development of productive and commercial activities abroad found no difficulty in the application of the same internationalization productive and commercial strategies in countries near to each other in cultural terms. As far as the other countries are concerned, they had to recur to specific forms of internationalization (for example the scout) to operate in new markets that were not fully explored by the competitors and for which it was difficult to evaluate the multiple economic variables that describe the activity of a market-Country.

firms from the Marche area were not open to the 'global economy'⁴. During the empirical survey, it was observed that the tendency to plan international strategies of production through direct investment is followed both by first generation firms and by firms that have overcome the generational jump⁵. This is because productive internationalization constitutes an evolutionary jump that often takes place during the initial phases of the development of the firm.

6.3. Local or Domestic R&D

Another consideration suggested by our research was that the firms from the Marche area will be called upon in the near future to manage different technological development paths, each of which evolves in a particular way inside the differently owned production units, both domestic and abroad, to the point that they will have to play the role of 'specialized' suppliers in the growth of various and well diversified technological assets that are dynamically evolving. It therefore follows that the governing system of firms that are owned by one single person or company will have to be inspired by a strategic philosophy centred on objectives of global use of the technological competences acquired by the various firms (market seeking objective). Hence in the future it will be increasingly difficult to centralize activities related to the growth of the technological assets in only one firm. The same can be said for the R&D activities for which only their progressive international delocalization and their contemporary diversification can reduce the risk of an innovative activity, especially for smaller firms. The strategies to compete in those markets will have to be not only market seeking but also technology sourcing. Only in this way will the strategies of international development of the firms operating in high tech business markets be able to generate significant advantages and guarantee the objective of risk seeking international growth.

6.4. The Role of the Entrepreneurial Factor in Successful International Strategies

It has been noticed that only where there is an internationalization of entrepreneurship can we see the dynamic phenomena of absorbance of local knowledge by the subsidiary connected to the effective and rapid modality of

⁴ On global-born firms see, among others, Knight and Cavusgil (2004).

⁵ Many authors have highlighted the fact that cooperation agreements first regard firms belonging to mature sectors (Contractor and Lorange, 1990); other researchers, among which Porter (1990), consider the forms of international cooperation as second best choices with respect to international expansion through direct investment.

transferring the domestic plant⁶ (McDougall *et al.*, 1994; Gregori, 2001; Alvesson and Willmott, 2002; Chatman and Cha, 2003; Welch and Welch, 2006 and Langlois, 2007). We are referring particularly to those situations in which a member of the family entrepreneur-founder (brother or son in cases where the generational transition has taken place) goes to live for long periods abroad and assumes the direction of the foreign activity and the strategic command of the domestic firm, which is constituted by the family nucleus of the entrepreneur-founder and top management, giving him the role of developing relations with the various local partners⁷. While promoting economic relationships, the domestic entrepreneur, who has an active role in governing abroad, facilitates the instalment of constructive phenomena of learning between the new customer abroad and the domestic firm (Golinelli, 2000; Corbett, 2007; Criscuolo and Narula, 2007 and Verbeke and Kenworthy, 2008)⁸. Concretely, we can see that the capacity of the entrepreneur to expatriate and to install inter-personal relationships in the market-countries of origin facilitates the access of the local production sources of technological know how and gives valid support to the marketing operators of the domestic firm, so that they can adopt the most adequate strategies of international marketing. Interpersonal relationships are very useful sources of information to develop informal market analyses abroad and to carry out more structured research market. In fact they very often constitute one of the few paths possible for installing forms of cooperation with local researchers (*i.e.*, institutions, universities and firms).

7. SOME CONCLUDING OBSERVATIONS

The results of the analysis show that many of the choices made by SMEs regarding their internationalization strategies are restricted by managerial and financial limitations. They are often forced to adopt the second best option. This could be due to the fact that they do not possess enough resources to activate direct forms of presence abroad, or because their limited size does not justify the

⁶ At the present state, the knowledge acquired from the analysis on the spreading to the firms abroad ('fully owned' or with 'shared ownership') of the domestic entrepreneurial culture does not allow one to affirm that the entrepreneurial culture of the company headquarters becomes a real 'culture of a corporate type'. Interesting research results on the corporate entrepreneurship activity as a process of business development separated from the traditional and well structured processes of strategic management were presented by Hughes and Morgan (2007) and Teng (2007).

⁷ For an analysis of the role that the 'interpersonal entrepreneurial relationship' has in favouring the immediate success of an internationalization strategy, see the work of Bartlett and Ghoshal (1987), McDougall and Oviatt (2000) and Harris and Wheeler (2005).

⁸ It has been said in recent studies that when the exchange relationship is promoted by the entrepreneur, the contractors gain from both the reduction the learning asymmetries (Corbett, 2007) and the entrepreneurial transaction (Michael, 2007).

necessary investment for commercial and production purposes from an economic point of view. In theory these choices cannot be considered wrong, but they have turned out to be inadequate because the firms had to favor competitive factors that were new to them, such as the price factor. Strategic activities involving R&D, production and marketing have been reduced as a result of these policies, and this has had a negative impact, in the medium term, on internal know how. In order to sustain their expansion abroad SMEs do not need to adapt to growth parameters imposed by contingent situations (technical-organizational structure, financial limitations, family turnover, international situation), but they must evolve so that the results of the complex decision making process are the consequence of a structured plan that is provided with a lot of resources and shared by the organization. Direct investment abroad has always been the preferred option for all of the businesses that are the subject of this study. The model of the new foreign based production plant is increasingly similar to the Italian model, and it permits the adaptation of the new needs to the behaviour and the managerial system abroad. It is structured in such a way that it allows a large degree of flexibility to adapt the production lines to variable industrial demand in order to adapt to the rapid changes of the competitive situation abroad. Productive investments abroad represent a very stable form of investment. Their management is completely internationalized and common strategy objectives can be pursued. Furthermore, planning is based on a slim strategic structure and commercial strategies are integrated. The FDI (Foreign Direct Investment) over time has been the preferred form of organization of firms dealing with mechanics and electronics in the Marche Region. The decision to internationalize is based on the following factors:

- The development of the firm abroad can be further sustained by the exchange of relations that the firm manages abroad with the foreign target client and with the network of firms that the customer belongs to;
- Building new production plants abroad and continuing with R&D in the domestic country (which is prevalently design and engineering oriented on specific products and lines) expands the volume of production, thereby spreading the cost of R&D;
- Even if they belong to a sector characterized by strong competition, most of the firms in our sample have adopted effective differentiation strategies based on innovative processes that are difficult to imitate ('incremental innovation').

Indeed sole traders from the Marche Region can seize the opportunity to be present within the 'system of international sub-suppliers', armed with strategies that are able to deal with strong international competition. In the short term this

enables the preservation of and even an increase in the share of business markets. The internationalization of production is strongly characterizing the processes of development and growth of SMEs, and they are becoming multinational firms. The firm needs to be willing to invest a large amount of capital and organizational energy in order to manage the foreign based firm in the global market in terms of production activities, the development of new process technologies, marketing, and logistics. At the moment small and medium sized firms have a good capacity to increase the resources and skills necessary to undertake a successful delocalization strategy in various areas of activity. This capacity is an indispensable asset in order to comprehend the continuous modification of the economic and competitive context of the market-countries abroad, especially those involved in a recent process of industrialization.

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Resumo

Este artigo tem como objectivo analisar a forma como o processo de concorrência internacional entre as PME depende, cada vez mais, do tratamento e/ou da análise das várias actividades numa escala global, com especial referência para as actividades de Produção, Marketing e I&D. Esta regra também se aplica às empresas da região de Marche, que são obrigadas a elaborar novas estratégias de expansão internacional. Com efeito, são induzidas a alterar a sua presença e/ou a sua forma de actuar em mercados estrangeiros, passando de simples exportadoras para agentes que actuam dentro do mercado como um todo, a fim de alcançarem com êxito uma posição mais competitiva no mercado internacional de negócios, por outras palavras, dentro da "cadeia de oferta global". O presente estudo visa compreender as motivações para a internacionalização das PME, envolvendo as actividades produtivas e os objectivos em matéria de concorrência e do mercado. Nesse sentido, importa estar ciente de que o processo de tomada de decisão deve ser rápido, num contexto no qual a informação é incompleta e parcial, e onde as decisões estão sujeitas a contínua modificação.

Palavras-chave: Estratégias Internacionais das PME, Marketing *Business to Business*, Cadeia de Distribuição.

