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Carol M. Sanchez

Grand Valley State University

Doug White

Grand Valley State University

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In addition to this direct influence, area businesses are likely to feel other indirect effects. The European Union countries have a total population and GDP which is slightly greater than that of the U.S., Canada, and Mexico combined. In 1995, sales to the E.U. accounted for over 21% of total U.S. merchandise exports. Any economic slowdown in Europe will therefore have repercussions in the U.S. as a whole. It is this slowing of U.S. economic growth in general which may be of the most importance for the west Michigan community.

Michigan Export Sales to the European Union by Selected Industry:

	<u>1995 Sales in Thousand \$</u>	<u>% Change 1993-1995</u>
Fabricated Metal Products	105,920	107.2%
Transportation Equipment	2,403,437	38.9%
Furniture and Fixtures	34,158	29.1%
Lumber and Wood Products	19,603	27.7%
Manufactured Food Products	39,417	22.5%
Agricultural and Livestock Products	74,741	17.4%
Rubber and Plastic Products	27,243	14.4%
Industrial Machinery and Computers	547,242	9.1%
Scientific and Measuring Instruments	117, 485	6.9%
Leather Products	1, 814	- 46.8%
State Total	4,193,195	33.5%

Source: International Trade Administration, Department of Commerce. Note: Data include export sales to all countries that are presently members of the E.U.

Finally, one piece of good news for west Michigan businesses -- the British government remains skeptical about EMU, and the country is unlikely to participate in the first wave (although next year's general election may change that). At present, Britain has amongst the highest growth rates in western Europe -- 2.3% for 1996 and estimates of 3.4% for 1997. Furthermore, because the country is not under pressure to meet the Maastricht criteria during 1997, the British government is not undertaking the severe budget cuts of its E.U. partners. Britain's solid growth is therefore likely to continue and increase the country's demand for foreign goods. Britain is ranked as Michigan's 7th largest export market, and accounts for 14% of Michigan's exports to the E.U. According to a survey conducted by GVSU Management Professor Carol Sánchez, and reported in the fall edition of the West Michigan Business Review, about 10% of west Michigan companies cited Britain as their top international sales target, with another 12% calling it their second most important export market. This will then help cushion west Michigan's European sales from the EMU budget-cut fall-out.

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Critical Factors in the Internationalization of West Michigan Firms: Some Observations

Carol M. Sánchez and Doug White
Department of Management
Seidman School of Business

The United States Department of Commerce¹ has reported that U.S. exports account for over one-third of the U.S. economic growth over the past seven years. In addition, export related jobs grew six times faster than total employment. This level of activity is matched by increases in world imports by U.S. trading partners. This market is estimated to increase by more than two trillion in real dollars over the current level of imports from trading partners by the year 2010. Infrastructure development projects are estimated to be at least one trillion dollars in Asian countries by the turn of the century and approach a half trillion dollars in Latin America by the year 2006.

¹U.S. Department of Commerce. (1996). "Facing international competition with relentless pragmatism." News Release, June 14.

Does Size Count?

So, what does all this mean for small and medium-sized west Michigan businesses that wish to tap into this revenue stream-flowing across national borders? Numerous academic researchers have pursued the idea that the size of the company affects the ability to export effectively [called export intensity]. Many of the studies we have read find that size is indeed a relevant factor in export intensity, while other studies indicate it is not a significant factor, and yet in other studies the findings are inconclusive. This type of indication makes it difficult to recommend how west Michigan firms might best pursue an international objective, since if the results of the first set of studies is true, there is no hope for any but the largest firms in the industry. But it is hard to say which set of studies are most valid, because in addition to the differing results, the measurement schemes used to conduct the studies have varied among them. For example, some studies measured size by counting the number of employees, while others measured sales. All of this leads to a jungle of issues for managers attempting to delve into the export markets.

Seeing the Trees

Because of the convoluted nature of these issues, we decided there might be a forest and trees kind of problem. We believe that the findings have been inconclusive because there are other business-level factors in addition to size that may affect a firm's ability to do business overseas. When these other factors are examined together with the size issue, a clearer set of results might emerge. Three important factors that may affect the results are:

- The Firm's Commitment of Resources to Export Activity
- The Firm's Basis for Competition in the Industry
- Management's Belief that Barriers to Exporting Exist

Because each firm will respond differently to each of these issues, it may explain why looking at size alone will not capture the whole picture of international business activity. It is much like driving a car. Although it may seem to be a simple concept to point the car down the road and move forward, all sorts of issues will affect whether you get to your destination: level of concentration and emotional state of the driver, ability to deal with other drivers, perception of the road, vehicles, and obstacles that may get in the way.

Commitment to Exporting

This is one key issue which may cause a variation in results when we examine it in conjunction with the size of the firm. Consider the driving analogy again. A VW bug can transport more goods than a semi-truck, when there is only enough gasoline to fuel the VW. Similarly, it is important that a firm commits adequate resources to the exporting activity, whether it is a large firm or a small firm. Some of the international activities for which resources are needed includes the physical cost of setting up sales in new markets, learning the aspects of this new branch of the business, gathering personnel and training them, examining legal issues, international travel, and more.² So, while it is possible that a large organization may commit a large amount of resources to their exporting activities, there is no reason to assume that they always do. We think that large firms that do commit a greater percentage of resources to exporting activities will experience a greater level of exporting activity than large firms that fail to commit the needed resources to international business.

Price and Quality Count

Price and quality are also important factors in the export game. It seems sensible that firms that can produce at the market established level of quality and simultaneously reduce costs so that they can sell their products at lower prices will be better local and global competitors. If that is true, then a firm's pricing strategy and the extent to which they strive for quality may dramatically affect the export intensity of the firm. As was stated above, we cannot assume that large firms are automatically better at doing international business just because of their size. However, we do think that large firms that are also competing both on price and quality attributes will demonstrate more activity in the international arena than large firms that compete based on price alone, or on quality alone.

Perceptions of Barriers to Exporting

An old adage is "perception is more important than reality". While this can be a dangerous principle for managers, it is all too often true. Many researchers have observed that managers' perceptions of the risks or benefits of a given strategy are frequently important determinants of the success or failure of the firm.^{3,4} A firm may be reluctant to commit needed resources to international sales, even

²Cavusgil, S.T., & Naor, J. (1987). Firm and management characteristics as discriminators of export marketing activity. *Journal of Business Research*, 15: 221-235.

³Dutton, J.E., & Jackson, S.E. (1987). Categorizing strategic issues: Links to organizational action. *Academy of Management Review*, 12: 76-90.

⁴Staw, B.M., Sandelands, L.E., & Dutton, J.E. (1981). Threat-rigidity effects in organizational behavior: A multilevel analysis. *Administrative Science Quarterly*, 26: 501-524.

though they are large firms, if the firm's managers believe that exporting will be extremely risky and uncertain. If firms are already exporting, and if the overseas venture becomes too risky, managers may pull existing resources out and refuse to assign any more to the venture. On the other hand, if managers believe that exporting is an opportunity for growth and profit, the risk versus return ratio for the company may be appealing and lead to greater involvement in international activity. We think that large firms whose managers have more positive perceptions about the outcomes of international sales will demonstrate greater export intensity than large firms whose managers perceive that exporting is a risky, prohibitive venture.

What we looked at

Since most of our readers are from companies in west Michigan, we limited our study to west Michigan firms. We surveyed 561 manufacturing companies in the Kent, Ottawa, Muskegon, and Allegan counties. We chose manufacturing firms because they represent a significant number of all firms in this area. When we began the study, we found that exports from west Michigan have increased about 81% since 1990.⁵ However, estimates showed that exports comprise only about 5% of total sales of west Michigan firms, and there is a great potential for growth in international sales in the future.⁶

A survey of the companies selected was combined with data from a commercial data base called the Harris Selectory of Manufacturers, 1995 Edition, to complement the information obtained from the surveys, without violation of confidentiality or release of business sensitive data. This approach adds confidence to the results since various yet consistent sources of information were used.

Findings – The Forest and the Trees

We stated that there are three important factors that may determine whether the size of a firm is an important prerequisite to doing business internationally -- the extent to which the firm commits significant resources to international business, whether the firm competes on both price and quality measures, and whether managers perceive that international business is a positive opportunity. We collected information from west Michigan firms, to determine if the data would support our statements.

The results from the analysis of the data supported our arguments. If large firms compete in international markets using both price and quality attributes, if they commit significant resources to international activity, and if their managers perceive that very low barriers to exporting exist, their international activity will be greater. Competing on price and quality simultaneously had the greatest influence on the export intensity of the large firms. Resource commitment and perceptions also played a significant role toward the tendency of large firms to export.

Thus, the question remains, what does this imply for managers of firms in west Michigan? We believe that managers must be aware of the potential of the export markets, and understand that size alone does not determine the success or the failure of a venture in international markets. Managers must see both the forest and the trees if they are to increase their export intensity and tap into the stream of profits flowing across the borders of the United States. The results of this study suggest that smaller, entrepreneurial, and midsize firms might successfully enter international markets, if they keep in mind that there are several other factors that might influence their success.

In summary, the three issues presented are all found to affect the export intensity of firms competing for export dollars. Managers should be aware of these issues and consider the following tips:

- Put low price and quality foremost in your competitive strategy. You are competing internationally every day, even if you only sell products to domestic customers. Your customers today may switch to international suppliers tomorrow who can sell at a lower price, or a higher quality, than you. Price and quality can affect your ability to capture a viable presence in the international marketplace. ISO 9000 and other standards should be your guide to insure success.
- Commitment of resources must be a true commitment and have the support of the organization. A marginal or short-sighted commitment will only result in failure. As in the case of perception, the commitment of resources should be across the various groupings within the companies to insure education and adequate resources will provide managers with the tools they need to navigate the waters of the export stream.

⁵Santo, C., Cornish, M., & Fain, A. (1995). International trade in the Grand Rapids region of west Michigan. Grand Rapids, MI: Grand Valley State University.

⁶Singh, H. (in press). Results of the survey of economic confidence. Seidman Update. Grand Rapids, MI: Grand Valley State University.

- Perceptions should be confirmed with a good dose of reality. Learn the truth about exporting. Participate in executive seminars that focus on the nuts and bolts and the details of doing business internationally. Education and expertise will win out every time. Look at the numbers and discover how important international sales might be to increasing the sales and profits of your firm. Be sure your perceptions about the risk and rewards of international business accurately reflect reality.

In Conclusion...

These three issues appear to be very important factors that determine the willingness of firms to get involved in international business activity. But our findings suggest that we need to study many other issues that may contribute to success and failure in international sales. It may be that different factors come into play, depending on the specific industries, or the specific region of the world. However, the lesson we can draw from this study is that firm size is not the only factor that will influence how involved, and how successful, a firm will be in international business. Certainly, large size offers certain benefits to firms wanting to export, but export success depends on other issues as well.

International markets provide exciting opportunities for west Michigan firms now and in the next century. The most fundamental question is, will your company take advantage of this opportunity to excel overseas?

“Debunking Some International Marketing Myths

Bennett L. Rudolph
Department of Marketing
Seidman School of Business

“Very little is known of the Canadian country since it is rarely visited by anyone but the Queen and illiterate sports fishermen.”
-P. J. O'Rourke

Many local business people are frightened of the prospect of having to do business in the multinational global market that has recently developed. They believe that doing business internationally is substantially different from selling domestically. After all, foreign countries have strange and exotic cultures which will force our local business leaders to eat sheep eyes and to belch after their meal in order to show their polite gratitude.

Well, I am happy to be the bearer of good tidings for those business people who believe these things. You don't have to be an expert in another culture in order to do business internationally. Business people in other countries know that you are a foreigner; no matter how much you know about another culture, you are not likely to fool them into thinking you are not an American. People make cultural allowances for foreigners in every part of the world: They do it when American business people visit their country.

If you do not believe this, I will simply refer you to the many local companies that have already succeeded in the international marketplace. Surprisingly, many of them are absolutely ignorant of foreign cultures. While I am not advocating ignorance, I do note that this ignorance has not stopped them from bringing back millions of dollars in international orders. One local C.E.O. recently asked me some questions which indicated that he did not realize that Poland was close to Russia. That has not stopped his company from doing a substantial amount of business in Central Europe.

If international business success is really only bestowed on those who are culturally sensitive, how could we explain the fact that the strongest trading nations on earth are Japan, Germany, and the United States? None of these countries are exactly known for their cultural sensitivity. Germany and Japan often show their appreciation of other cultures by trying to wipe them off the face of the earth, and everyday Americans are frequently unaware other countries even exist.

If cultural understanding was the prime criterion in creating a business relationship nobody would ever do business with foreigners. Who could ever understand your culture better than people from your own country? We do business with foreigners knowing full well that they do not know the culture as well as we do, but hoping that we can make some money on their products or services.