Globalization of Smaller Firms: Field Notes on Processes

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ABSTRACT. Smaller firms have played a pivotal role in the present decade of globalization. Reduced barriers to international trade and investment coupled with the advances in information technology have accorded opportunities for smaller firms – employing fewer than 500 persons – to emerge as multinational. The focus of this exploratory paper is on the *how* of their globalization or internationalization. Information from field studies of seven firms – three Dutch and four American – obtained by means of personal interviews with senior managers constitutes the primary qualitative data. Considering the convenient choice of the firms and the subjective nature of the recall data the paper, without claiming to draw any inferences, offers three initial propositions, for further refinement, expansion and empirical testing.

Globalization, since the 1960s, has been propelled by potent factors such as falling regulatory country barriers to international trade and investment; declining telecommunications costs; and expansion of freer capital markets. *The Economist* (1993) noted that such factors "favor smaller firms as well as big ones." According to Ohishi (1994), "large- and middle-sized Japanese firms are increasingly becoming internationalized." The importance of smaller firms, especially since the late 1980s, has been increasingly recognized as a key to the revived competitiveness of the United States. In other countries such as Germany and the Netherlands in Europe, or Japan and Taiwan, such a recognition has been accorded for decades. It is generally understood that successful smaller firms are those that employ less than 500 persons. Even though it is assumed that all surviving smaller firms are innovative, in fact, many are not due to the nature and scope of their business. Many smaller industrial firms tend to be "contractual" rather than "independent" in the United States (Palaniswami and Prasad, 1996). That is not to say, they are not efficient producers of goods and services. The role of smaller firms in industrial innovation has been prominent. Acs and Audretsch (1990) ascribe this role to (a) the "decentralizing" effects of certain technologies [such as biomedical or information] and (b) increased *globalization*.

However, what is *globalization*, an ubiquitous term, remains an open-ended question. The CEO of the mature consumer products multinational Proctor & Gamble (P&G), speaking to a group of financial analysts in 1997, characterized globalization at P&G as "making products and services competitive with anyone's, anywhere, whether that competition takes place at home or abroad" (*Annual Report*, 1997, p. 5). This characterization is not inconsistent with the academic views. Melin (1992), for example, identifies globalization with "the process of rising involvement in operations across national borders . . . observed in multinational corporations." Events of 1998 in the world economy have produced such turmoil in the developing countries that the concept may have a new connotation. A McKinsey & Co. global expert has stated: "When we talk about globalization, we need to talk about emerging markets. But the most important integration now is occurring between Europe and America." (*Business Week*, 1999), echoes the prevailing notion that history is repeating itself – Europe and the United States are once again the drivers of the world economy.

The concern of this paper is about the globalization process at the level of the firm, not about capital markets or emerging economies. It assumes that international expansion is tantamount to the transformation of the domestic firm. Smaller firms

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have mushroomed on the globalization landscape not merely as exporting firms but as firms investing significant part of their financial assets abroad. As Braunerhjelm (1993) has noted, investment in foreign production units has become an imperative for the future growth of smaller firms. Such FDI decisions are often in the domain of a firm's *corporate-level* strategy. That is to say, the top management decides whether or not to go abroad, and also selects one of the two modes of entry, namely, the ground-up approach referred to as the *greenfield* mode, or alternatively the acquisition mode of an enterprise operating in foreign lands. The latter has been quite popular.

The paper focuses on the *how* and *when* of the globalization processes by which smaller firms emerge as multinationals.[1] In this paper, the *how* refers to the process and the *when* to the stage of the firm's life cycle. Two theoretical notions that appear to be most relevant to a description of the globalization process are (1) the elements of the stage theory of internationalization (Johanson and Weidersheim Paul, 1975) and (2) the crux of the *organization life cycle* hypothesis (Kimberly and Miles, 1980). These two concepts are briefly reviewed and examples of acquisitions by smaller American companies are included in section I. In Section II the method is explained and information gathered from interviews is summarized. Section III contains a discussion followed by three propositions.

Two relevant theoretical concepts

The two concepts that were deemed relevant to the primary research undertaking were the stage-theory of the internationalization process and the organization life cycle concept. The stage-theory rests on detailed case studies of four Swedish firms – Atlas Copco, Facit, Sandvik and Volvo – Johanson and Weidersheim-Paul (1975) who inferred that internationalization (or globalization) is the consequence of a series of incremental decisions. According to the authors the increments come about in sequential stages: no export; some indirect export; substantial and direct export; and finally, a decision to produce abroad. This postulate is subject to the limits imposed by financial resources and knowledge of a foreign market. However, these constraints are reduced through the incremental nature of decisions which, in turn, foster organizational learning (Marquardt, 1994; 1996). This path-breaking study has spawned many a controversy over the last two decades (Strandskoff, 1986; Turnbull, 1987; Anderson 1993). Others such as Cavusgil (1984), Ghauri and Prasad (1995), Caloff and Beamish, 1995 and Coviello and Munro (1997) tend not to dismiss the idea advanced nearly a quarter century ago. Some of the weaknesses of the stage-theory model can be redressed by incorporating the notion of the *organization life cycle* or *OLC* (Kimberly and Miles, 1980).

The term *life cycle* is a biological metaphor that has been applied extensively at a micro-level to *product* in the marketing literature, and in the international trade and investment research at the macro-level (Vernon, 1966). The *OLC* notion underscores the cyclical character of an organization. As Kimberly and Miles elucidate: *Organizations are fluid and dynamic; they move in time and space; they act and react*. Thus, change in the organizational entity is intrinsic. The explications of Kimberly and Miles (1980) make a compelling argument to incorporate OLC in the process of internationalization as a broad framework to conduct detailed field studies of the process of a firm's globalization. In other words, the research focus could be shifted to the growth strategy of a smaller firm and its foreign direct investment approach as in acquisition of foreign operating units of large mature multinationals. Thus, the essence of the two concepts embed *increment* and *sequence*. A smaller firm may make the increment by acquiring the holdings of larger multinational enterprises.

Acquiring cast-off assets

In discussing the rise of the multinational corporation, Shapiro (1991) noted that the classical trade theory is increasingly irrelevant to the analysis of the countries at the core of the global economy . . . the increasing capacity of even small companies to operate in a global perspective [content] makes the old analytical framework even more obsolete (pp. 4–5). Associated with a firm's decision to produce abroad is the question of whether to create its own affiliates or to acquire a going concern. Scanning published announcements, 1988–1993, we found that the going concern need not be a domestically-owned concern. Many mid-sized U.S. firms acquired foreign-owned units of multinationals and emerged as *global* firms. The most notable was the case of Marine Harvest Company which acquired a unit of Unilever and became a leading firm in salmon-farming business (see Table I). Privately-held Haworth Inc. spread its presence in the EU. Thus, it would seem that successful smaller firms tend to be on the look out for opportunities to acquire operating units that were regarded by the large multinationals perhaps more as liabilities than valuable assets in the global corporate portfolio of their businesses.

Field study notes

One mode of research in the area of corporate strategy, as identified by Hambrick and Lei (1985), is the situation-specific view that treats strategy as a future-oriented plan aligning the firm and its external environment. Often labeled as the field study method, this approach includes longitudinal case studies (e.g. Mintzberg and Waters, 1982) that attempt not only empirical description but also propose typologies or offer propositions. The method of gathering information included in this paper is in the tradition of field studies. There is an attempt at empirical description[2] in this essay, but it does not claim to represent an empirical study of the postulates of either the *stage-theory* or the *OLC* concept.

The main mode of gathering information for this paper was by means of personal interviews with senior executives of selected firms. The interviewers were graduate-level students who were either staff employees, as in the case of the four American firms, or who had close connections with the three Dutch firms. All of the interviewers were familiar with the "stage theory" literature and the *OLC* idea. Under the author's guidance, the interviewers discussed the open-ended questions (see Appendix A) about the process of the firm's international business involvement. The Interviewers took notes, used whatever documents were provided to them, and prepared reports in 1994 on each of the companies. The information gathering was consistent with the field study approach but was not as systematic as in a random

TABLE I
Becoming 'global' by acquiring cast-off assets

Year	Mid-sized U.S. acquiring firm as *Buyer*	Mature multinational firm as *seller*	Asset transacted	Impact on the buyer of the Foreign acquisition
1988	Haworth, Inc. (Michigan)	Vickers United Kingdom	Comforto GMBH (German furniture firm) Sales: $57 million	Acquirer gained expanded presence in the E.C. (U.S. rivals: Steel Case and Herman Miller)
1992	Synopsis, Inc. (California)	Sumitomo, Japan	High-tech Center Corp. Japan (82% for $3 million)	Acquirer gained market presence in Japan
1992	Marine Harvest International (New Jersey)	Unilever United Kingdom	Salmon fishery farms located in Chile and Scotland (for $39 million)	Acquirer emerged as one of the world's largest firms in salmon-farming business
1993	Batts, Inc. (Michigan)	Industivarden AB Sweden	Karner Birnbaum Ltd. for $20 million (est.)	Acquirer raised international revenue by 20 percent
1993	Fluke Corp. (Washington)	Philips NV The Netherlands	Test/Measurement unit of Philips NV (for $55 million)	Acquirer gained access to Philips' R&D facilities and entry into Asian, European and Latin American markets
1993	SciMed Life Systems (Minnesota)	American Home Products United States	Medical equipment plant in Belgium (for an undisclosed sum)	Acquirer gained foreign plant, equipment and 175 trained employees

* Herman Miller Deutschland, Inc. Frankfurt, Germany.

sampling study. The respondent firms constituted a "convenience set" of the cooperating companies to which the interviewers had access. The Dutch firms were *Avebe*, an old-line agribusiness firm; *Neptunus*, a rental service firm; and *Victron*, a computer peripheral maker. The American companies, while not exactly the counterparts of the Dutch firms, were *Calgon*, a carbon water purifier; *Legent*, a software and system solution firm; *Liquibox*, a container maker; and *Symix*, an application software firm.

All but Avebe insisted that no report be published mentioning names or details for a period of five year that is not before 1999. The field study notes thus obtained in personal interviews have been collated and summarized in capsule form in Table II. The life stage of the firm was subjectively determined on the basis of rate of sales revenue growth. The subjective criteria were 4 to 9 percent growth was equated with the "growing" stage (OLC stage II) and 2 to 3.9 percent with the maturing stage (OLC stage III). The emerging (stage I) and the declining (stage IV) stages were deemed as abnormal situations for globalization of smaller firms. The method is not a robust field study method. The number of firms included is small and does not represent a sample of an identified universe. There is also a certain degree of response bias. Given these limitations, an attempt is made to refrain from drawing conclusions but to framing tentative propositions that characterize the globalization of smaller firms.

Discussion and propositions

The focus of the paper is on the globalization process of smaller firms. The pre-1980s theoretical frameworks that dwell on the "why" and "how" of FDI by firms have been exemplified by the "internalization" theory[3] and the "stage-theory." From the management perspective, the latter, despite criticisms, offers valuable insights. The very nature of global competition has changed since the late-1980s. While the very large mature multinationals forge ahead in capturing the markets in the emerging economies, the smaller firms obviously need to find niches on an international basis.

One can assume *A*. that firms tend to map out strategies to grow in the global economy, *B*. the path of internationalization need not be sequential as in the past, particularly 1945–1974 and *C*. the internationalization of the firm could materialize either by the green field *(de novo)* approach or by means of acquisition. Assumption *A*. rests on the fact that there has emerged a global economy – one consisting of a multitude of country markets governed by market forces subject to regulation ranging from little to some. In such an economy, firms of different asset sizes do participate. Smaller industrial or manufacturing firms are often contractual or free-lance supplier-firms to larger firms. Entrepreneurial smaller firms tend to grow into mid-size firms, and are subject to the "law of proportion effect" as demonstrated in Ireland (O'Farrel and Courchley, 1985).

Assumption *B*. rests on many case studies that suggest that while some firms go through all of the four stages before they become multinationals, other firms leapfrog one or more stages. In the post-1980 global economy, the more technology-based the firm has been, the higher the probability that it would skip some or all the pre-FDI stages. A case in point: *Technomed International* (Mamis, 1989). In 1989, this French pharmaceutical-industry related research firm was established as an international firm with manufacturing subsidiaries in France, the United States, and Asia. The founder was a well-known French researcher who succeed in convincing the financial backers of the logic of becoming instantly international, even though, at the time, the firm did not have a product to market. There have been scores of smaller firms that have a product and move in the same path as Technomed did, especially in the new "high-technology" fields. Such firms are referred to as "global startups" or, as Oviatt and McDougall (1994) label them – "international new ventures." Finally, assumption C. is consistent with reported acquisitions during 1988–1994, for example, of Vicker's German unit by Haworth (Michigan) in 1988, of a Sumitomo unit in Japan by Synopis, Inc. (California) in 1992 and of Philips N.V. test and measurement unit by Fluke Corp. (Washington) in 1993.

As noted in Table I, published reports also suggest that a number of smaller firms that were mostly *domestic* became multinational or global when they decided to acquire foreign subsidiaries of major multinational firms across a number of

TABLE II
Firms are listed in chronological order of their foundings

Name of the company	OLC Stage	Major Acquisition	Globalization Impact
Avebe: Founded in 1919 as a marketing unit, it became a leading firm in the (potato) starch industry. It organized own R&D but rivalry from European firms intensified. So it began to look at Asia and in 1991/92 initiated a joint venture in Thailand to produce starch from tapioca.	III or maturing	No, but a joint venture	Asian region, joint venture in Thailand
Neptunus: Founded in 1937 as a small rental firm, during the War, the founder's family kept the business going. After the War, rental tent business mushroomed. Technology also changed. So the founder sought a cross-border partner and forged a joint venture with a German aluminum firm. Later, acquired a British firm and emerged as the third largest tent firm in Europe.	II or growing	Yes, a U.K. firm in 1987	European Community or the present EU
Calgon: Founded in 1948 as a unit of Pittsburgh Coke & Chemical in granular-activated carbon product business. It was a unit of Merck, then an independent firm. It acquired firms in Europe with a view to introducing its proprietary technology.	II or growing	Yes, many in Europe	Worldwide, through acquisitions rather than joint ventures
Liqui-Box: Founded in 1958 as a unit of a container company, and later spun off. As an independent firm, in 1992, it acquired the British packaging division of an American multinational and emerged as a global firm.	II or growing	Yes, U.K. firm with extensive international operations	Worldwide, via acquisitions rather than joint ventures
Symix: Founded as a proprietorship in 1979. Until 1987, its business was limited to Canada and the U.S. In 1987, it entered Mexico. By 1993, the firm employed 300 technical persons in Asia, Australia, Europe and the U.K. Management in 1994 felt no need for foreign acquisitions.	II or growing	None up to 1993	Worldwide, intended; through acquisitions
Victron: Founded by a Dutch researcher in 1980 to make and market inverters and rectifiers. But soon, with its UPS line, it built up a global marketing network in 60 countries; perceived itself as a "technology giver" in search of "receivers" worldwide.	II or growing	None up to 1993	Worldwide, through distribution networks
Legent: Founded in 1984 as a software and system solutions firm. By 1993 it had operations abroad but its R&D was retained at home in Columbus, Ohio. It set up sales agencies first, and then converted them into wholly-owned subsidiaries. As of 1994, it still had sales agencies in China and Brazil.	II or growing	Yes, converting agencies into subsidiaries	Worldwide, following major customers

Sources of information: Field study notes in Groningen (The Netherlands) and in Columbus (Ohio), 1994.

industries. In summary, the findings of the seven field studies (see Table II) indicate that smaller firms (6 out of 7) tended to become globalized in the second stage of their respective organization life cycle, probably because in the growth stage the firm was driven by the desire to maximize sales revenue and the firm possessed the comparative advantage in its industry. The process of globalization came about by means of horizontal acquisitions as in the case of Neptunus, Calgon and Liqui-Box. The two new-technology firms, Victron and Legent, appear to be driven by their own respective management philosophies which favored marketing or sales networks abroad. In short, foreign acquisitions played a pivotal role in the globalization process of firms that were mostly domestic or *uni-national*. By way of a final commentary, the following field data-based propositions relevant to smaller firms are offered:

P_1: Traditional uni-national firms tend to become multinationals more so in the second stage of *OLC*, or in their growth stage, rather than in the maturity stage of their *OLC*.

P_2: While traditional uni-national firms tend to transect two stages (stages 1 and 2) before reaching globalization, high-technology firms tend to leapfrog and become global instantaneously due to the nature of the information business.

P_3: The pursuit of core competence among the mature large multinationals and the subsequent sell-offs offers opportunities for uni-national manufacturing firms to become global via acquisition of the sell-offs.

As noted at the outset, these propositions need to be refined and tested. Any systematic attempt to do so would have to factor in the effects of the currency values of the home country of the large mature multinationals as well as those of the host countries where the operating units shall be registered and based.

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Notes

[1] The mainstream theorists have addressed the question of why a firm chooses to make a foreign direct investment rather than capture the benefits by licensing another firm. The technical (as well as the invariable) answer is that, by direct investing, the firm would have maximum control over its foreign subsidiaries and ergo minimizes its transaction costs. In the contest of banking firms, as Huertas (1990) noted, "The value-adding activities take place in [multinational] firms when the benefits of transacting within the firm are greater than the benefits of transacting in the market." However, if one assumes that the global economy is a composite of varying factor costs and benefits, it would be tenable to state that a larger multinational could both license and directly invest abroad.

[2] Only in a summary format.

[3] "Internalization", transaction costs, proprietary control, coordination are all correlates.

Appendix A: Open ended questions

Origin and founding

- Who first founded the company? In which year, and under what circumstances?
- What was the product or service? Was there a demand or was it a new product for which demand could be created? [Frame short questions at this point for further clarification].

Sales composition

- Let us say, during the first two years of operation, your company sales revenue was 100 or 100% (100 guilders or 100 dollars). Approximately, what portion of this did come from domestic sales? (If not 100 or all), what about the other portion? After 5 or 6 years, did you company generate 10 to 20% of sales in foreign markets?

Exports, licenses

- Who handled the exports? Was there an in-house export department or was your exporting handled by an outside agent? Was exporting a profitable operation? Was it a topic of discussion at management meetings? If there were discussions, were other issues such as licensing, joint ventures, or investing abroad ever come up? Was there a follow-up or a long discussion of any of these?

Foreign direct investment

- Did you have any joint ventures, minority-equity in factories abroad?
- Did you ever consider purchasing a business, a factory, or a facility abroad?
- How did you finance the deal?
- Did you ever consider building a plant in another country?
- Making foreign investment is very risky, isn't it? How did your company manage this risk?
- What advice would you give other companies in similar situations?

Other information

- Please comment on any other topic that might help me in understanding the complexity of the processes that you had to go through.

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