An investigation into the learning needs of managers in internationalising small and medium-sized enterprises

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ABSTRACT

This paper is concerned with the learning needs of managers in SMEs that seek to become progressively international. A particular focus of attention is the informal learning practices that occur within the economic and social networks utilised by managers in this sector. Using both qualitative and quantitative approaches to data collection, the paper investigates the challenges perceived by managers engaged (or seeking to engage) in international activity. The results suggest three main areas of challenge: first, the early 'pre-internationalisation' stage, when decisions about 'whether', 'where' or 'how' to internationalise are taken; secondly, the development of longer-term planning processes and business systems to cope with the consequences of the initial internationalisation decision; thirdly, the challenge of regulatory issues and the need to secure payment and manage foreign intermediaries. Further areas of learning need, which depend on the significance of international business for the firm, are also indicated. Existing structures, cultures and approaches to management can be maintained for many SMEs that undertake some limited international activity. Where international business is a more important factor, however, managers need to develop cultural appreciation and empathy to underpin their expertise and consolidate their market position. Indeed, sustained international development may require a significant re-orienting of the business, underpinned by management and organisational learning to develop an appropriate international 'mind-set' that supports the effective development of relationships with stakeholders in different countries.

MANAGERIAL AND POLICY IMPLICATIONS

- Management learning in SMEs frequently occurs in an informal and often unplanned way through a process of interaction within social and business networks.
- Decision makers are not fully aware of the different methods of internationalisation that they might consider when evaluating 'whether', 'when' and 'how' to internationalise.
- State-provided services of advice and support for internationalising SMEs in the UK focus primarily on regulatory, technical and procedural issues. Although these issues are of crucial importance, managers learn how to manage them through their informal business networks.
- The transition from limited international engagement to a position whereby international business is a significant component of an SME's activity requires a process of management and organisational learning to manage cross-cultural situations and to establish an international 'mind-set' within the company as a whole. This element of learning is unlikely to be anticipated during the initial stages of internationalisation and is not covered in the official support networks for SMEs.
- State-provided sources of advice and support are, therefore, of partial relevance for SMEs that wish to maintain only a limited level of international activity.
- Advice and guidance services would be better targeted on those SMEs that intend to achieve

significant growth through internationalisation. Rather than the provision of technical skills and knowledge, the service offered should promote a process of re-evaluation of existing business assumptions and the development of a new 'dominant logic' throughout the organisation in support of sustained international involvement.

KEY WORDS
Internationalisation, small and medium-sized enterprises (SMEs), learning, networks

INTRODUCTION
The challenge of creating an internationally competitive economy provides the UK policy context for support to assist the internationalisation process in small and medium-sized enterprises (SMEs). Given the wider environmental trend towards global convergence, as well as the adoption of outsourcing options by firms of all sizes, international activity is increasingly recognised as a growth option for SMEs (Schmidt, 1996; Coviello and McAuley, 1999).

SMEs form a significant feature of the European economy, representing 95 per cent of commercial organisations within the European Union and accounting for over 70 per cent of employment and 80 per cent of turnover (European Network for SME Research, 1994). Most small firms, in the UK as well as in Europe, aspire for survival and independence, rather than substantial business growth (Curran, 1999). The opportunities of international activity, however, are increasingly likely to form part of the survival tactics or the growth strategies for those that do wish to expand (Tonge *et al.*, 1998). SMEs are important to the European economy and, as markets arebecoming increasingly multicultural and transnational, the European Parliament and governments of member states have emphasised the role of national and local enterprise support agencies in facilitating the successful expansion of international business activity among smaller firms (Organisation for Economic Co-operation and Development, 1997; Eyre and Smallman, 1998).

The transition from domestic firm to established international player is an uncertain and dynamic one for firms of all sizes. For smaller enterprises, however, operating internationally is particularly challenging. Owner-managers, for example, develop personalised objectives based on their personal lives outside the firm as well as plans for their business. These may mitigate against the

management of the rigours of growth and change (Storey, 1994). Limited financial resources and time pressures may also constrain the ability of managers in the SME to think beyond tactical and operationally urgent issues (Marlow, 1998). Informal, and often intuitive, planning and control systems that characterise the sector further inhibit the systematic development of international activity (Baird *et al.*, 1994). As a consequence, international activity may well result in negative outcomes for SMEs (Barber *et al.*, 1989; Storey, 1994).

Against this background, this paper seeks to address three questions relating to the development of international activity in SMEs.

— What are the challenges faced by managers as their organisations become progressively international?
— What do managers need to learn to meet these challenges?
— How are these learning needs met in practice?

The precise definition of what constitutes an SME is problematic, depending as much on industry sector and national location as on categories of employment size or annual turnover (Storey, 1994). Current European Union classifications suggest that a small firm is one that employs 1–49 staff, and an SME employs fewer than 250 people. Business Links networks, established in the UK to offer a service to smaller firms, offer a service to those employing fewer than 100 people. This paper is based on data related to organisations of this size, accepting that the SME sector as a whole comprises a heterogeneous mixture of organisations, and firms of different sizes within it may face very different challenges. Following Coviello and McAuley (1999: 225), internationalisation is defined as 'the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions in other countries'. As such, international activity is taken to include: exporting; licensing/distributor arrangements; franchising; establishing a greenfield site abroad; having a manufacturing facility in another country; owning a sales or service centre abroad; undertaking a cross-border merger or acquisition; or the establishment of a cross-border joint venture or strategic alliance.

SMES AND INTERNATIONALISATION
The process of initial internationalisation, for firms of all sizes, may be considered as an incrementally

staged process (Johannson and Vahlne, 1990), the consequence of 'strategic opportunism' (Melin, 1992) or a more rational outcome of strategic market development (Buckley and Casson, 1999). Management learning underpins the process, whether internationalisation is explained as an economically driven process of rational choices in terms of foreign investments, the outcome of strategic or opportunistic management behaviour, or the product of a network of inter-firm relationships enabling organisations to grow and develop (Coviello and McAuley, 1999).

From within the 'staged perspective', Dudley and Martens (1993) characterise the process of internationalisation as moving from: an introductory phase of exporting or initiating a licensing agreement; 'colonisation' through distributors, branch offices or subsidiary companies; 'unification', with the tightening of central control and the establishment of global objectives; 'rationalisation', where the business is restructured into manageable groups of business units; culminating in a position of 'strategy maintenance'. Empirical investigations of the internationalisation process indicate, however, that these linear, staged explanations inadequately reflect the different experiences of firms in some sectors (Preece et al., 1998). Other studies focus on the organisational development features of international activity and suggest that organisations need to develop from a pre-involvement, or aspirational, stage of internationalisation to one where they are fully engaged through an 'international mind-set' in creating and maintaining effective relationships with stakeholders in cross-border operations (Edvardsson et al., 1993; Leblanc, 1994; Barkema et al., 1996; Anderson et al., 1998).

For smaller enterprises, of course, management learning is particularly important, as the scale and significance of the development from domestic to international operations is proportionately greater than for a large and functionally diverse organisation. The process of 'going international' begins well before the first international activity is undertaken, as managers begin to consider 'whether' 'where' and 'how' to operate overseas (Reid, 1981).

If the transition from pre-internationalisation to committed international player is to be achieved, key issues are the ability to build an international vision, formulate consistent strategic goals, and develop a positive attitude towards risk and international knowledge (Buckley, 1989; Chetty and Hamilton, 1996; Tonge et al., 1998).

LEARNING, TRAINING AND DEVELOPMENT IN SMES

The significance of management learning processes in internationalisation, particularly the provision of support, advice and interaction through personal and business networks was noted above (Coviello and McAuley, 1999). In the UK, as well as in other countries, however, the use made of the official agencies charged with fostering international activity is disappointing (Reid, 1984; Julien et al., 1998). Skill deficiencies in areas such as strategy and planning, marketing and sales, and leadership have been identified (Welch, 1996), but SMEs do not have a culture linked to the provision of formal training programmes (Scott et al., 1996; Storey and Westhead, 1997). Research focusing on formal 'vocational' training activity (see, for example, Curran, 1988; Westhead, 1996) suggests a low level of activity in SMEs. By contrast, studies that adopt a broader focus, incorporating informal as well as formal training, indicate that levels of activity are significantly higher (see, for example, Vickerstaff, 1992; Curran et al., 1997). For this reason, learning is defined in this paper as the acquisition of new knowledge and insights leading to changed behaviour. It is considered, therefore, to be a broader and less formal process than a 'task-centred' approach to training, embracing skills, knowledge and understanding as well as the attitudinal or 'affective' domain (Marquardt, 1996; Bloom, 1964).

The significance of informal learning is critical because SME managers have to deal with a wider task structure than their large business counterparts (Hendry et al., 1991; Gibb, 1998). The learning processes are as important as the 'content' of what is learned. In this sense, learning is seen as something that is 'acquired' rather than something that must be 'delivered' in a formal sense, and abstract knowledge (knowing what) is strongly linked to tacit knowledge (knowing how). The dominant mode of learning in small firms (learning by doing) thus involves: learning through feedback from customers and suppliers; learning by copying; learning by problem solving and opportunity taking; and learning by making mistakes (Gibb, 1998).

Working from this basis, and drawing on Kolb's (1984) model of experiential learning, Gibb (1998) highlights the importance in small organisations of learning through experience to cope and survive in a dynamic environment. The work of Argyris and Schon (1978) can also be applied in

this context. They distinguish between single loop learning, where behaviour is adapted to achieve existing goals and values, and double loop learning whereby individuals and organisations question those same values and attitudes, to reach a state of 'break through' learning. Senge (1990) builds on this approach and distinguishes between adaptive and generative learning; the latter involves creativity and enhancing the capability to rethink the 'world view' of the organisation and the continual development of the knowledge base. Prahalad and Bettis (1996) argue, from within this premise, that the 'conventional wisdom' and internalised cognitive processes of managers in an organisation comprise its 'dominant logic'. This dominant logic provides SME managers with a mental map by which to make sense of the world. Such mental models are not static, however, and will be modified through the joint construction of meaning as generated by sharing and dialogue (Hayes and Allison, 1998). In this way, informal groups, whose members share ways of behaving and interpreting events as 'communities of practice', enable learning to take place within social interactions between individuals and organisations on a daily basis (Gerhardi et al., 1998). There is a body of evidence, therefore, suggesting that learning within small firms involves a 'complex network of economic relationships, dependencies and mutual obligations' (Gibb, 1998: 17). Such informal learning is not without its problems, however, and it may be negatively influenced by problems of communication, lack of opportunity and lack of trust between the different parties involved in the interaction (Hayes and Allison, 1998; Coopey, 1998).

METHODOLOGY

Studies of both internationalisation and training in SMEs tend to take a quantitative or qualitative approach (Coviello and McAuley, 1999). A number of cross-functional quantitative studies attempt to analyse the degree, and different forms, of internationalisation (see, for example, Korhonen et al., 1996; O'Farrell et al., 1998). Similarly, a number of quantitative studies have been undertaken of the volume and types of formal training undertaken in small businesses (see, for example, Curran et al., 1996; Welch, 1996).

The qualitative approach, utilising either semi-structured interviews or a case study approach, has also been used to good effect in studying both internationalisation and learning in small businesses

(see, for example: Hendry et al., 1991, Julien et al., 1998). These studies highlight the dynamic, complex and specific issues associated with the development of new forms of business and the learning process where 'the management team will be constantly developing, and the skills needed will change as both cause and effect of the development of the firm itself' (Wong et al., 1997: 45; Gunther-McGrath et al., 1995). However, the complex and dynamic issues involved in both internationalisation and learning mean that single method studies may not fully explore or analyse the process under investigation (Coviello and McAuley, 1999).

The research design underpinning this paper incorporates both a qualitative and a quantitative approach to data collection, and three distinct phases were conducted. Initially, a qualitative study was undertaken, incorporating semi-structured interviews with decision makers in 50 organisations, across a range of business sectors and organisational sizes. This sample was derived from alumni databases of two universities. The criterion for inclusion was that international activity had commenced in the recent past. Initial contact was by telephone and interviews took place over a period of 15 months. Data were collected through semi-structured interviews with key decision makers who had been instrumental in deciding to adopt or implement a strategy of internationalisation. A framework of questions incorporating contextual and strategic issues was used to achieve consistency between interviews, while leaving flexibility to gather data specific to each organisation. Broad themes and issues were then derived from the predominately text-based, qualitative data and a process of pattern matching was undertaken (Miles and Huberman, 1984). This phase identified some important factors in the internationalisation process and established a context from which more detailed investigations could be undertaken.

The issues relating to management learning in smaller businesses were explored through a case study approach. This phase of the research aimed to identify the different variables, factors and issues faced by managers as they learn to adapt and interact in an increasingly international environment (Romano, 1989; Salama, 1992). In collaboration with the Export Development Counsellor of Business Link, Northamptonshire, 1,000 firms employing fewer than 100 staff were invited to a seminar entitled 'Successful Business Overseas'. Managers

Table 1: Case study organisations

Case study comp.	% Turnover from overseas	Characterisation	Regional market involvement	Types of international activity
F	5	Company is considering, but not committed to, a strategy of entry to overseas markets.	Western Europe, Africa	Export, distribution agents
C	5	Company is considering, but not committed to, a strategy of entry to overseas markets.	Africa	Export, distribution agents
B	10	Company is more systematic in organising activities in new areas but is still searching for the best way to proceed.	Western Europe	Export, distribution agents
D	10	Company is more systematic in organising activities in new areas but is still searching for the best way to proceed.	Western Europe	Export, distribution agents, subsidiary
E	40	Consolidation of new market position. International activity is conducted separately from other markets. Issues between different markets and the main office.	Western Europe, Eastern Europe, Asia	Export, subsidiary
A	60	Actively seeking new opportunities. International business issues begin to be integrated into thinking and action within the organisation.	North America, Western Europe, Middle East, Australasia, Asia	Subsidiary, distribution agents, export

from 17 firms attended this seminar, and six companies agreed to participate in the case study phase of the research. These six organisations have been trading for between seven and 45 years and employ between 15 and 47 staff. They represent a range of different business sectors and their annual turnover ranges from £600,000 to £4m. Some of the organisations are involved in a limited amount of international activity while others secure 40–60 per cent of turnover from overseas involvement, principally subsidiaries, distribution agents or export. A summary of the key organisational features of the companies is shown in Table 1.

The procedure for obtaining case study data was as follows. First, semi-structured interviews, focusing on the management challenges, the learning needs of managers, and the ways in which these needs were met, were undertaken with the owner manager of the firm. (See Appendix 1) Secondly, company documents relating to the implementa-

tion of international activity and the strategic and marketing activities of the firm were collected. Thirdly, company tours were undertaken to facilitate observation of less tangible aspects of the organisation, notably the culture and values of the organisation and its approaches to management. Fourthly, in order to capture routine aspects of the international experience of the firm, another member of the company was asked to complete a series of diary sheets to record their reflections on critical incidents during the previous few weeks (Coffee and Atkinson, 1996). The provision of a summary report to each company was used to check the factual accuracy of the data collected. Data analysis from this stage of the project involved a comparing and matching process that built on, and sought to amplify, the themes that had been identified in the initial phase (Yin, 1994).

In the third phase of the research programme, a postal questionnaire was devised, which incorpo-

rated issues arising from the two previous stages, as well as factors identified within the broader literature on internationalisation. The questionnaire asked respondents to consider factors influencing decisions to become involved with international activity, the implementation of those decisions and the outcome of the process.

The questionnaire was mailed to a random sample of 3,000 businesses in three geographical areas of the UK: North London, East Midlands and Manchester. The database comprised firms of all sizes with the proviso that they were involved in international activity. Responses were received from 252 companies of which 187 (75 per cent) employed fewer than 100 staff; 64 per cent of these organisations were principally involved in manufacturing industrial and consumer products, the remaining 36 per cent being primarily service-oriented organisations. This paper focuses on the responses of those companies employing fewer than 100 staff. Of this group 6 per cent, although sourced from a database targeted at known exporters, reported that they had not commenced international activities. Of those who were operating internationally, only 14 per cent had commenced their international activity in the previous five years, the remaining 86 per cent reported experience in this field for six or more years.

LEARNING TO INTERNATIONALISE: THE CHALLENGES

The decision-making process in SMEs has been characterised as one where emergent developments and chance opportunities may be more significant than formally rational strategic thinking (see, for example, Newbould *et al.*, 1978; Olson and Bokor, 1995). Analysis of the postal survey data is not conclusive on this point. While many of the companies claimed to be motivated by 'potential' in overseas markets, other features, such as an appraisal of the domestic competitive situation, cultural features and geographical proximity, were less significant. When asked to indicate factors that might have become more important over time, respondents highlighted factors associated with formal planning, such as the domestic market size, organisational capability and issues of spreading risk (see Tables 2 and 3). In both cases, personal motives, *ad hoc* orders or approaches from agents were recalled as less significant.

The postal survey also sought to identify parti-

Table 2: Key factors influencing the decision to internationalise (n = 168)

	Unimportant	Fairly imp.	Very imp./ critically imp.	No response
	(%)	(%)	(%)	(%)
Potential size of overseas market(s)	4.8	22.6	72.6	0.0
Profit potential from sales overseas	5.4	30.9	60.7	3.0
Thought to be within the capabilities of the organisation	11.3	26.2	59.5	3.0
Approaches from overseas customers, ie known demand	14.3	28.6	57.2	0.0
Similar customer needs in overseas markets	13.1	27.3	55.4	4.2
Spread risk across more markets	20.8	30.9	45.8	2.4
Approaches from existing contacts	25.6	28.0	41.7	4.8
Limited size of domestic market putting constraint on growth	24.4	33.9	38.1	3.6
Unique or patented product to market overseas	46.4	11.3	34.5	7.7
Personal motives within the company	41.1	22.6	32.7	3.6
Approaches from overseas agents	33.9	30.9	31.5	3.6
Opportunity to utilise excess capacity/reduce production costs	43.4	28.6	22.6	5.4
Limited competition in overseas markets	35.7	37.5	18.5	8.3
Similar culture in overseas markets	45.2	32.1	17.3	5.4
Geographical proximity of markets/ease of access	45.8	30.9	16.7	6.5
Strong competition in domestic market	40.5	37.5	16.1	5.9
Ad hoc order or one-off project	57.7	17.8	16.1	8.3
Availability of foreign government help/inducement	84.5	6.5	1.8	7.1

Table 3: Factors becoming less or more important over time (n = 139)

	More important (%)	Less important (%)	No response (%)
Potential size of overseas market(s)	84.9	15.1	0.0
Limited size of domestic market, putting constraint on growth	82.6	17.3	0.07
Thought to be within the capabilities of the organisation	70.5	18.7	10.8
Spread risk across more markets	68.3	20.1	11.5
Profit potential from sales overseas	63.3	29.4	7.2
Similar customer needs in overseas markets	61.9	32.4	5.7
Strong competition in domestic market	59.0	25.1	15.8
Approaches from existing contacts	57.5	29.5	12.9
Approaches from overseas customers, ie known demand	56.8	32.3	10.8
Personal motives within the company	48.2	34.5	17.3
Opportunity to utilise excess capacity/reduce production costs	43.2	36.7	20.1
Approaches from overseas agents	40.3	43.1	16.5
Unique or patented product to market overseas	34.5	46.0	19.4
Geographical proximity of markets/ease of access	32.4	48.2	19.4
Similar culture in overseas markets	30.9	47.5	21.6
Ad hoc order or one-off project	23.7	50.3	25.9
Limited competition in overseas markets	23.0	56.8	20.1
Availability of foreign government help/inducement	6.5	65.5	28.1

cular problems that had been experienced during the early phase of internationalisation. Again the data are inconclusive, particularly as some respondents would not have recent memory of the early period of internationalisation. Although payment issues and the management of foreign agents were cited by more than 40 per cent of respondents, the higher rates of response indicate issues that were not perceived as a problem, particularly: entry routes/methods, transport or logistical difficulties, awareness of tariffs/trading barriers and language problems (see Table 4).

Table 4: Problems in the early phases of internationalisation (n = 157)

	Strongly disagree/ disagree (%)	Not sure (%)	Agree/ strongly agree (%)	No response (%)
We experienced payment problems	50.3	2.5	45.8	1.3
Management of agents/intermediaries was problematic	39.5	12.1	42.7	5.7
There was a lack of coordinated assistance from government agencies	25.5	24.2	36.9	13.4
Products were less competitive than anticipated	51.6	11.5	34.4	2.5
We were unprepared for levels of bureaucracy	54.1	14.6	28.0	3.2
Competitor reaction in foreign markets was a problem	63.1	8.3	24.2	4.5
Language barriers were a problem	70.0	6.3	23.6	0.0
We failed to appreciate market characteristics	56.7	18.5	21.0	3.8
We were unaware of the existence of trading barriers/ tariffs	70.7	8.3	12.7	8.3
We inadequately prepared our overseas staff	50.3	13.4	18.5	17.8
We experienced transportational/logistical difficulties	71.3	8.9	14.6	5.1
Coordination between home and overseas organisations was a problem	66.2	14.6	10.2	8.9
We selected an inappropriate entry method	72.0	12.7	5.7	9.5

Table 5: Prior knowledge when first entering different regions (number of responses shown for each different region)

	n	*Poor (%)*	*Average (%)*	*Good (%)*	*Very good (%)*	*N/a (%)*
Eastern Europe	102	46.0	19.6	3.9	2.9	27.4
Asia	112	41.1	20.5	12.5	5.3	20.5
Middle East	110	40.9	19.1	12.7	3.6	23.6
Africa	101	37.6	18.8	6.9	4.9	31.7
South America	81	28.4	17.3	7.4	1.2	45.7
Western Europe	165	21.2	44.8	24.8	6.7	2.4
North America	121	19.8	24.8	25.6	8.2	21.5
Australasia	108	19.4	27.8	19.4	3.7	29.6

The issue of prior knowledge of target markets was investigated to some extent through a question relating to knowledge of different regions of the world prior to entry. Knowledge of Western Europe was perceived to be average or good in around 70 per cent of firms, whereas between 40 and 46 per cent of respondents entering Eastern Europe, Asia and the Middle East believed their level of prior knowledge to be poor. Only 6.8 per cent believed their knowledge of Eastern Europe to be good or very good prior to entry, with this figure rising to 16.3 and 17.8 per cent for those entering the Middle East and Asia (see Table 5).

The survey also provided respondents with an opportunity to reflect on some of the outcomes of their international activities. Data from the questionnaire, shown in Table 6, indicate that the main changes recorded relate to product specification, marketing issues and financial controls. There is less evidence of changes in management style,

organisation structure or approach to HRM issues. When asked about other, less tangible, benefits of involvement with international markets, most firms cited enhanced market awareness and company reputation rather than organisational or management learning (see Table 7).

The survey data suggest, therefore, that having made the decision to undertake international activity, immediate challenges of securing payment and the management of foreign intermediaries are important, and prior knowledge of the target region is recalled as a less significant issue for those embarking on international activity. Management learning is not perceived as a concern at the beginning of the process or as an outcome.

The survey data provide some useful indications of challenges for managers but do not indicate the process by which these issues are addressed. Data from the case study organisations, however, are useful for further investigation of these challenges.

Table 6: Organisational changes as a result of international activities (n = 171)

	No change (%)	*Some change (%)*	*Imp./crit. change (%)*	*No response (%)*
Product specifications	21.6	47.4	31.0	0.0
Marketing/sales procedures and policies	19.9	47.9	30.4	1.7
Management style	36.2	34.5	27.5	1.7
R&D activity	39.2	29.2	26.8	4.7
Financial controls	31.6	40.9	25.1	2.3
Organisation structure	38.6	38.0	21.0	2.3
Human resource/personnel procedures and policies	47.4	35.1	13.4	4.1
Language training	58.5	31.6	8.1	1.7

Table 7: Benefits of involvement with international markets (n = 171)

	No/little change (%)	Some change (%)	Imp./crit. change (%)	No response (%)
Greater market awareness	9.9	32.7	57.3	0.0
Enhanced company reputation	12.9	40.9	45.6	0.06
Professionalism increased	12.8	40.9	45.6	0.06
Organisational/management learning	29.8	43.8	24.6	1.70
Increased language proficiency	55.5	31.6	11.6	1.20

LEARNING TO INTERNATIONALISE: THE PROCESS

Experiential learning

Much of the literature on internationalisation, particularly that based on the 'staged approach', suggests that firms are likely to enter markets with low 'psychic distance' in their initial forays abroad (see, for example, Barkema *et al.*, 1996). The questionnaire data do not support the view that culture or location, both of which might be components of 'psychic distance', are significant features of internationalisation decisions. For the case study organisations, experience of the entry method used to access previous markets was also more important than issues of culture or geography.

In Company A, for example, international activities have been undertaken and developed in an *ad hoc* way with such success that, in spite of a lack of any coherent strategy or plan, business abroad now accounts for 60 per cent of the company turnover. Products reach North America, Western Europe, Middle East, Asia and Australasia. The overseas business is undertaken almost entirely through a network of distribution agents, although there is one subsidiary company in New Zealand that began as a distributor and was acquired to save it from insolvency.

The current MD of Company B initiated trade overseas through chance contacts gained from an existing domestic customer. Further activities in foreign markets have been undertaken through contacts with large customers based abroad. On this basis Company B has been able, on an incremental basis, to use its contacts as a base for expansion into new geographical markets and leverage its existing expertise and product range.

Exports, for Company C, account for less than 5 per cent of annual turnover. The orders stem from small advertisements in UK business directories being accessed by customers overseas looking for a supplier based in the UK, and from the unsolicited approach of a distributor. The MD

indicates that future expansion of overseas business will occur through the establishment of a network of distributors, and he plans to attend some trade missions in the Middle East, Africa or Asia in future.

Company D began international activity as a result of receiving a small number of orders for their products from customers living in Europe. The MD was also approached by potential agents from France, Switzerland and Austria, who had seen the product while in the UK and felt there would be a market for it in their countries. Company D owns a small subsidiary company in France which had previously been a distributor of their products, but had been 'bought-out' because the MD believed the French market could be developed more proactively if he had more control over the activities of this particular distributor.

The experiences of these companies suggests that experiential learning is important for subsequent activities that may be undertaken to achieve an expansion of international activity. While all but one of the case study companies had planned to expand their business overseas, none of them had conducted formal research into the different ways of achieving this, preferring to build on their previous approaches.

Technical and procedural learning

The case study data also suggest that 'technical' and 'procedural' challenges are very significant, particularly in the early period of international activity. All of the case study organisations emphasised the critical importance of learning and mastering the documentary and regulatory mechanisms necessary for the conduct of overseas trade generally, as well as the regulations specific to their business sector.

The owner manager of Company C, for example, assumed that, when the first overseas orders arrived, the process would be like a 'straight sale, as with UK business'. In fact, there were more com-

plications than were expected, and the company needed to learn a considerable amount about the documentation required to ship materials overseas.

Company D also found the learning requirements of initial export into France particularly difficult and admitted being entirely unprepared for the levels of bureaucracy required. The MD reported that he had previously wasted entire business visits to France because he was unaware of the 'little rules', extra taxes and requirements for the completion of forms. These essential prerequisites are not written down in a format that is accessible for exporters, especially a small business from the UK.

Company A, which exports to a wide range of countries, also reported the ongoing need to learn about the correct shipping procedures for any new order, conscious that the wrong documentation will inevitably result in the non-delivery of the product and a delay of a number of weeks in correcting the error and moving the process forward.

This type of learning was not perceived as difficult to undertake. Company B, for example, had sent the sales office manager on an export documentation course and the same company also found it relatively easy to seek advice on regulations or even to outsource many parts of these 'technical' processes. Similarly, the warehouse manager in Company C had attended a course about exporting and the company had obtained useful advice on the technicalities of exporting from a major supplier.

Company F does not engage in any marketing specific to its export activities and there is no pattern to the countries from which they may attract an export order, the most recent contracts being for equipment in Austria and Ghana. Indeed, one of the two partners in the business is concerned that rapid development of international activity might threaten the stability and character of the firm. As such, there is little enthusiasm for export orders and they are treated in the same way as any UK order would be. Where procedural and technical advice is needed, it is usually obtained from haulage companies and from Customs and Excise.

Overall, therefore, the use of books and manuals, the occasional off-the-job course for one or two people in the organisation, and the advice of contacts within their network of business relationships generally, enables firms to meet the 'technical' problems associated with international activity.

Learning about markets and customers

Some, but not all, of the case study companies also cited the importance of gaining local market knowledge. Company E, for example, invests considerable effort in sustaining business contacts with bigger customers. Likewise, the MD and the Technical Director within Company A spend considerable time out of the country visiting agents, and establishing and developing lasting working relationships. Within this organisation, the company is explicit about the need for two-way trust with their distributor network, feeling that business will be sustained only if there is a mutual acceptance of capability on both sides of the sales relationship. In Company B, the approach is very similar. The MD confirms the importance of effective relationships for sustained international business. Only a few people in his organisation have experience of international customers and know the sorts of behaviour and sensitivities that are important. Company D places great importance on the development of appropriate behaviour and relationships through the linguistic ability of key players within the organisation on the overseas side of the business. Company E was formed from a management buy-out of a large, multinational chemical company. Having worked within the larger organisation prior to the buy-out, the MD has previous experience of working internationally. In order to develop the business overseas further, the MD appointed a new person to run the UK operation in the late 1990s and redeployed himself and his family to Hong Kong for two years, to increase sales in the Far East.

The type of cultural learning described above is less tangible, and it is difficult to differentiate and articulate. Such knowledge seems to be acquired through the activities of a few key players. A course-based or instructional form of learning would be inappropriate for such people. A slow process of dealing with problems and achieving what Gibb (1998) identifies as an 'adaptive' understanding of 'the way to do things' takes place. Successful adaptive learning seems to depend on the personal experience of a few key personnel, who, in turn, rely on colleagues, customers and wider business contacts to help them learn.

Generative learning

One of the case study companies, Company A, also indicated learning needs that are similar to the 'generative' learning highlighted by Gibb (1998). The organisation is currently undertaking a thorough review of the way it meets the needs and expectations of overseas customers. An extensive customer survey has been carried out and a confer-

ence organised to consider the attitudes, judgments and values of the main overseas distributors and to re-align the business in the light of this. The organisational structure is under review, and it is likely that a new appointment will be made to act as a catalyst to develop the business as an internationally orientated company. As part of this review, Company A is trying to identify and correct its weaknesses, and enhance its strengths in international business so its operations abroad can be integrated and managed as part of the 'mainstream' business. To achieve this end a radical reconsideration of the assumptions, beliefs and values of the organisation is required.

The experience of the case study businesses suggests that, as indicated by the staged theories of the internationalisation process, a mixture of strategic thinking, strategic action, emergent developments, chance and necessity is evident (Johannson and Vahlne, 1990). Staged approaches, however, tend to underemphasise the pre-internationalisation phase that is an important feature of the experience of the case study organisations. This study does not support those models (for example, Dudley and Martens, 1993) where 'types' of international activity are depicted as unfolding in something of a linear fashion.

The data also indicate that, where international activity is not a significant part of the business, organisations are likely to maintain the cultures, structures and approaches traditionally adopted in their domestic markets. The experience of internationalisation, therefore, is not of itself a 'trigger' of organisational change in small firms. Nevertheless, the analysis does suggest that sustained international activity may require organisational development such that delegation, coordination and flexibility within the organisation is developed through some form of generative learning. This is necessary to facilitate more effective working with customers or agents in other countries.

LEARNING TO INTERNATIONALISE: MEETING LEARNING NEEDS IN PRACTICE

As noted already, sources of advice, guidance and support are provided for SMEs by local and national agencies tasked with assisting small business growth, but empirical studies have suggested that their impact is limited. Sources of advice most often used by those in smaller firms tend to be provided by business friends and suppliers rather than Trade Associations, Training and Enterprise Councils (TECs), Industry Training Organisations or Professional Bodies (North *et al.*, 1996). The perceptions of questionnaire respondents from this study about the quality of advice provided by a range of external sources confirms this view. The data shown in Table 8 suggest that contacts in similar businesses are more frequently used sources of advice than Business Links/TECs or Trade Associations. The quality of advice about international activities provided by contacts in similar businesses is rated as good or very good by over 40 per cent of respondents compared to 12 and 9 per cent for Business Links/TECs and Trade Associations, respectively.

The experience of the case study organisations also lends support to network-based explanations of small business development. Personal networks of business contacts and friends were viewed as the most useful, and commonly sought, sources of advice and support related to the internationalisation process. Organisations B and C also reported

Table 8: Quality of advice and support relating to international activities (n = 145)

	Not used	Poor	Average	Good/very good	No response
	(%)	(%)	(%)	(%)	(%)
Contacts in similar businesses	26.9	3.4	17.9	42.8	9.0
Informal contacts	30.3	4.8	24.8	26.9	13.1
Dept of Trade and Industry	29.6	13.8	29.6	25.5	1.4
Chamber of Commerce	35.9	17.2	30.3	16.6	0.0
Contacts in unrelated businesses	44.8	5.5	13.8	15.2	20.7
Parent company	45.5	3.4	4.8	13.8	32.4
Banks	31.7	24.1	29.6	12.4	2.1
Business Links/TECs	42.7	13.8	25.5	12.4	5.5
Trade associations	39.3	13.1	30.3	9.6	7.6

receiving valuable advice from suppliers. Official bodies, such as the TECs, the CBI and other training providers, were rarely found to be of great value. For Company B, they were a reasonable, but rarely sought, source of *ad hoc* advice. Likewise, Company C had very little contact with such bodies although the MD felt that the company might initiate contact with the local TEC and a Trade Association at some stage. Company F failed to read many of the frequent 'mail shots' which arrived from trade bodies, the Chamber of Commerce, TECs and the Department of Trade and Industry (DTI). Company D contrasted the helpfulness of the Chamber of Commerce in France with its local equivalent in the UK, feeling that the support in the UK was 'rarely relevant or convenient'. For Company D, the Trade Association was the most helpful institution in the UK although the primary source of advice and support was through the MD's network of friends and business contacts.

Analysis of the case study data also reveals the significant influence of internal factors on the learning process. It suggests that a major influence on the passage of a smaller business through the internationalisation and learning process is the 'dominant logic' of key decision makers within the organisation. In Companies A, B and E the MD had previous experience of working on an international basis. In Companies A, B and D the MD had also led a comprehensive business refocusing exercise during the previous few years. While it is possible to commence internationalisation with a culture and dominant logic that reflects the existing UK small business experience, to be fully established as an international business on a sustained basis requires a period of reorientation which presupposes reconceptualisation and learning by senior figures in the firm and also by the company as a whole. The process of internationalisation itself may not prompt this change and it may be that external 'triggers', perhaps through the appointment of a significant figure with experience from outside the business, as with Company B, or through a change of ownership of the company as a whole, as with Company A, may lead to a reappraisal of current business processes.

CONCLUSIONS

The evidence from this study suggests three main areas of challenge faced by managers in internationalising SMEs. The first occurs in the initial pre-internationalisation phase when managers must decide 'whether', 'when' and 'how' to internationalise. This study suggests that decision makers are not fully aware of the different methods of internationalisation that they might consider, or of the potential longer-term implications of their decision to undertake international activity.

The second challenge, which follows from this, is the requirement to develop planning and management systems to enable the organisation to sustain, and possibly expand, its initial international activity on a longer-term basis.

The third area of challenge, which is common to all internationalising SMEs, is the requirement to cope with technical and procedural issues specific to the financial and legal regulation of trade between countries. The evidence of this study suggests that learning to meet this 'procedural' challenge is not difficult for most managers.

The study also indicates two areas of learning need that are important for the sustained development of international business but are not necessarily recognised as such by those involved in the process. The first is the need for adaptive learning to enable those involved in small firms to consolidate market position and customer relationships through the development of cultural appreciation and empathy.

The second learning need, which may be required if the organisation is to establish itself as an international organisation rather than a 'domestic firm that also exports', is for generative learning whereby the underlying 'dominant logic' or 'paradigm', through which the firm operates, is reconceptualised through a process of management and organisational learning. This level of learning, which is developed in theoretical approaches to learning and is evident in only one of the case study organisations, is unlikely to be undertaken, or to be perceived as relevant, by managers whose motivations for their business relate more to survival than to sustained international growth and development.

IMPLICATIONS FOR POLICY

The study confirms the importance of a variety of stakeholders in the learning process. Business friends, suppliers and customers, business associations, together with specialist professionals such as accountants, solicitors and financiers (North *et al.*, 1996; Bennett and Robson, 1999) are key sources of support and information for the small firm. There are a range of implications for this networking for the operation of official support services for SMEs.

Support in the UK is available at local and national levels. At a local level, such services are

primarily provided through the DTI and the support system is currently being radically overhauled in the wake of the introduction of the Small Business Service (SBS). It is envisaged that a national network of Learning and Skill Councils (LSCs) will manage the funding of different forms of support currently available through a network of Business Links and TECs. In addition to Business Links, LSCs will also collaborate with other agencies such as Chambers of Commerce and Regional Development Agencies. DTI objectives for 2000–2001 indicate the importance of increasing the productivity and profitability of SMEs, as well as the improvement of support for exporters (DTI Strategic Framework 2000–2001). On a national level, the DTI provides centralised services of advice and information relating to all aspects of international trade and European issues.

Support and advice services specifically related to international business will continue to be provided, within this overall framework, by Export Development Counsellors accessed through the Business Link network. Advice, grants and seminars will be made available to support small firms in activities such as: the design and support of business strategies (domestic or international); training in skill areas such as marketing and export; the provision of market intelligence and information; and visits to trade shows and potential markets.

Empirical studies have shown that small firms utilise the state-provided sources of advice infrequently, preferring 'business friends' as a source of advice and support (Bennett and Robson, 1999). Medium-sized firms tend to make more use of official sources of advice, guidance and support, and there is also some evidence that uptake may be greater among the slower growth firms. DTI evaluation studies of the services provided through the TEC network suggest that they are well received by those SMEs that use them, although they also indicate that the services remain underutilised by most firms within the sector. Where the services are used, the most frequently cited benefits are in relation to changing 'motivation and attitudes', and improvements in 'financial control and business planning'. The 'development of new markets (including export markets)' is cited less often (DTI, 1995).

The evidence of this programme of research goes some way to explaining why the goal of new market development might not be attained. First, many of the services available through Export Development Counsellors are informational, technical and procedural, and they tend to focus on market intelligence and training and advice about export skills. This type of 'programmed learning' does not seem to be an area of difficulty for most small firms. Support might be better targeted, therefore, to the earlier pre-internationalisation phase. The quality of initial decisions about internationalisation is critical and the implications of different options for the continued management of the business have to be evaluated at this stage. Proactive 'outreach', in partnership with networks already familiar with the particular industry sector, may be required to identify organisations that may be involved in the pre-internationalisation decision-making process.

Opportunities to meet learning needs for small firms seeking to consolidate and further develop their international activity are also lacking. These needs might best be met through provision of opportunities for learning through networks and tapping into the experience of others in fostering effective social, business and cross-cultural relationships. The re-evaluation of business orientations, underpinning generative learning processes, may also be required if organisations are to be encouraged to develop sustained international involvement. Managers of many internationalising SMEs, however, are not motivated to achieve significant growth and organisational change. Support and advice services that aim to facilitate generative learning and organisational change must, therefore, be appropriately identified such that those organisations that are likely to achieve such development can benefit from the services.

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LEARNING TO INTERNATIONALISE
INTERVIEW QUESTIONS

Respondent Name: ....

Respondent Organisation: ....

Date of Interview: ....

The interview asks you to reflect on the past 12 months or so of your activity.
There are four parts to the interview enquiry.
1. *Basic company context*
2. *Learning requirements - <u>what</u> you had/have to learn*
3. *Learning experiences - <u>how</u> you have learned what you have*
4. *What has helped / hindered the learning process for you*

Section 1 - Introduction
1. Please can you provide a basic overview of your business:
>   company age
>   number of employees
>   main business products/services
>   annual turn-over etc.
2. Please can you provide some background information to your business overseas:
>   what type of operation(s)
>   when they commenced
>   why they commenced
>   how significant they are for the business as a whole
>   any plans to expand overseas operations in any way

Section 2: Learning Requirements
3. What did you expect would happen when you commenced your operations abroad?
4. What were the surprises? - give examples if you can
5. How did you know what to expect?
6. What have been the most important changes/challenges/problems related to operating overseas which have affected the company in the last 12 months?
7. What effect has the events of the last 12 months had on your overall business?
8. Has the team/group involved in the international aspects of your business changed significantly in the last 12 months in terms of:
>   the people who are involved
>   the way the people work together
>   the way they relate to other areas of your business
>   they way they relate to other organisations e.g. suppliers, govt agencies etc.
>   the way they relate to customers / clients in other countries
9. Thinking about the information you need to be able to operate overseas, how confident are you that you know all you need to.
10. If you feel that there are gaps in your knowledge, where do you think they occur
>   technical knowledge (be as specific as possible)
>   working with people overseas (be as specific as possible - provide examples if you can)
>   deeper values and attitudes to the way to do business

11. If a friend were to ask your advice about operating abroad what would you say were the most important things needed for success:
    "technical" skills and knowledge needed
    insights and attitudes needed
12. How would you advise them to obtain those important things?
13. How far would you say your company has the skills and knowledge that you have highlighted to your friend?

Section 3: Learning Experiences

14. Thinking about the changes / challenges / problems you have encountered during the last 12 months would you say that important lessons have been learned? If so, can you give an example?
15. How important are the following ways of learning about international operations: (scale of about 1 - 10)
    - working informally with other people (who?)
    - more formal arrangements for working with others (e.g. coaching/mentoring) can you give an example if this is significant
    - off the job training (give an example)
    - trial and error
    - other ways of learning (be specific please)   •
16. Is there one person who has had (or has) a big influence on establishing and managing the business overseas? If so:
    - what position / role does that person have
    - how important are different ways in which this person makes a significant difference (give examples each time and a rough rating of about 1 - 5)
        - their ideas
        - possession of special skills/knowledge
        - personal characteristics
        - financial reasons
        - because of their position in the organisation
        - personal contacts outside the organisation
        - enabling/encouraging others to gain the skills and knowledge etc. that is needed
        - other (be specific)

Section 4: Influences on Learning

17. What are the main factors which help you to learn what you need to learn to succeed in your international operations?
18. What gets in the way?

19. How useful do you find the following bodies as sources of advice or help when operating overseas is concerned?
    - local authority
    - local business bodies e.g. Chamber/TEC
    - other local firms (large / small?)
    - enterprise agencies/business link
    - employer groups
    - trade associations
    - government bodies
    - training providers
- other (specify)
- In what ways are the above useful to you?