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International strategy and performance—Clustering strategic types of SMEs

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ABSTRACT

This paper identifies different strategic types of internationalised SMEs, in so doing providing managers and entrepreneurs with a much better understanding of the main strategic options and their relationship with the international performance of firms. We provide a theoretical analysis of strategic orientations and strategic behaviour in international SMEs, followed by an empirical investigation based on a sample of Italian SMEs. The SMEs are grouped into strategic types using cluster analysis, and the link between strategic type and international performance is subsequently analysed using logistic regression. The empirical data suggest that there are four broad strategic types, namely an entrepreneurial/growth-oriented group of firms, a customer-oriented group, a product/inward-oriented cluster, and a further group of firms that lacks strategic orientation. The characteristics of the strategic clusters are discussed, and the regression results show that a clear and proactive strategic orientation and its consistency with business strategy leads to improved international performance. This confirms the positive and highly significant role of strategic types.

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1. Introduction

The relationship between differentiated strategic orientations, related strategic behaviours and the subsequent international performance of firms is a relevant issue for entrepreneurs, managers and policy-makers. This topic has been neglected in international business research. Research into possible alternative strategic typologies is scattered and the same holds for the link between strategic orientation, internationalisation and the overall performance of the firm. The research gap regarding the association between strategy and internationalisation has been highlighted in two reviews. Melin (1992) not only emphasizes the missing link between internationalisation and strategy, but he also highlights the deterministic and static nature of most contributions. Ricart, Enright, Ghemawat, Hart, and Khanna (2004), referring to the 84 papers published in the *Journal of International Business Studies* between 1970 and 2003, identify only eleven papers that in some way dealt with overall strategic issues. Additionally, in most of the reviewed contributions, the large multinational corporation (MNC) is the centre of attention, while the international strategy of small and medium-sized enterprises (SMEs) remains a largely neglected research field (Bell, Crick, & Young, 2004).

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The lack of research into SME business-level strategising might be partially explained by the fact that SME behaviour has been described as essentially unplanned and reactive (Bilkey & Tesar, 1977) or at best opportunistic (Westhead, Wright, & Ucbasaran, 2002). However, Bell et al. (2004) note that “the absence of an explicit and formal strategy does not equate to the lack of strategic vision, whether or not this involves a global focus.” In the same vein, Welch and Welch (1996) emphasize the “strategic foundations” of the firm (including knowledge, skills and experience, etc.) and, similarly to Crick and Spence (2005), identify planned and unplanned routes to internationalisation. The international entrepreneurship literature also highlights the proactive, innovative and risk-taking attitude of entrepreneurial (small) firms towards foreign market opportunities, providing empirical evidence of their ability to create and implement internationally oriented strategic choices. Although the change in SME internationalisation behaviour has been widely recognized at both the academic and the political level, analysis of the *differentiated* strategic orientations of SMEs in international markets is missing. Our contribution addresses this issue. The empirical analysis aims at uncovering strategic types in the internationally oriented SME universe and at determining whether these particular strategic postures result in international performance differentials.

The paper is structured as follows. Firstly, a literature review of the extant research is provided on key dimensions of the strategy construct, in particular the strategic orientation dimension and its links with competitive and functional strategies. Secondly, the evidence regarding the impact of strategic orientation/strategic types on performance is reviewed. The research methodology is then presented and the main findings are discussed. The paper ends with a discussion of the implications of the study for practitioners and researchers, its limitations and the identification of future research opportunities.

2. Strategic orientation constructs

This paper puts forward the idea that strategic orientations in SMEs are differentiated and give rise to correspondingly differentiated strategic behaviours, thus determining differentiated internationalisation performances. No definitive view on the ontology and conceptualisation of strategic orientation constructs has been agreed upon despite much research into strategic orientations (SOs) – understood as the critical means for firms to survive and prosper in a competitive environment. SO studies emerge from distinct research streams, namely strategic management, strategic marketing, and (international) entrepreneurship.

One of the main contributions about differentiated SOs is provided by Miles and Snow (1978), who outline four strategic typologies: reactors, defenders, analyzers, and prospectors. This classification is based on the relationship between firms and their environment, and accommodates differentiated levels of strategic proactiveness. From this viewpoint, a link between strategic management and entrepreneurship is put forward. Defenders adopt a conservative view of strategy. Prospectors, in contrast, emphasize innovation and change and strive to compete mainly by exploring new market opportunities, emerging trends and technology. Defenders and prospectors thus constitute the two poles in a continuum of strategic proactiveness. Analyzers, being a combination of prospector and defender orientation, fall in the middle of this continuum. Reactors lack a consistent strategy.

The construct of *entrepreneurial orientation* (EO) has been developed in the entrepreneurship literature, and can be described as a combination of three dimensions, namely innovativeness, proactiveness, and risk-taking (Lumpkin & Dess, 1996). This literature stream has mostly considered firms with this strategic orientation as opposed to “non-entrepreneurial” firms.

In a similar vein, innovation management studies identify an *innovation (sometimes labelled technology) orientation* (IO) which is present when organizations implement new ideas, products or processes (Hult, Hurley, & Knight, 2004; Hurley & Hult, 1998). It is associated with investments in technological leadership and with high-quality products (Fritz, 1996; Gatignon & Xuereb, 1997) and – as with the above-mentioned entrepreneurial orientation – is a construct which identifies a certain group of firms as opposed to all the remaining ones.

Apart from the Miles and Snow contribution, much of the work about differentiated strategic orientations may be found in the marketing literature. In an early work, Keith (1960) describes a firm’s evolution from production and sales to marketing orientation. *Production orientation* (PO) is based on the pursuit of production and other operating efficiencies and will produce widely available and relatively inexpensive products and services in order to establish competitive advantage (Fritz, 1996; Kotler, 2002; Noble, Sinha, & Kumar, 2002). A production orientation in terms of delivering reasonable quality at the lowest price has been shown to be highly effective in some contexts (Zhou & Li, 2007). A *selling orientation* (SEO) is characterized by aggressive sales and marketing to achieve fast returns and maximize market share (Noble et al., 2002). Firms pursuing such an orientation aim at market share expansion and short-term sales maximization while contemporaneously investing heavily in promotion and distribution (Zhou & Li, 2007). Kohli and Jaworski (1990) and Narver and Slater (1990) elaborated further the Keith concept of market orientation.³ This construct places the highest

³ The concept can be traced back to the 1950s when Drucker (1954) argued that customers should be the foundation of an organization and the reason for its existence. In developing the market orientation concept, researchers have extended this idea: they suggest that market orientation includes two major sub-dimensions, namely *customer orientation and competitor orientation*.

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