SMALL FIRMS MORE OFTEN DEVELOP STRATEGIES FOR OPPORTUNITIES INSTEAD OF OPPORTUNITIES FOR STRATEGIES, WHICH FREQUENTLY LEADS TO NO-GO DECISIONS

A comparative case study on foreign entry into China

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Abstract

In an uncertain, unknown foreign business environment small firms face a high chance of faillure, as they base international expansion more often on one local opportunity.

A total of 25 Dutch firms are studied while making Go/No-Go decisions for 54 business activities in or with China. The research is unique in that it follows firms of different size over time, while they make highly strategic choices in an uncertain and unknown foreign business environment. Insight is gathered on firm characteristics, opportunity identification, the strategic advantage, the Go/No-Go decision and the strategy process leading to these choices.

The study shows how small firms more often build an international business strategy around one concrete opportunity in China. Other firms first identify a strategic advantage beneficial for the firm, after which they search for opportunities in China to fulfill these. When faced with disappointment, firms who seek opportunities in China for a strategic need, frequently postpone plans or continue to search for opportunities elsewhere. Small firms who develop a strategy that is triggered by a concrete opportunity in China, cancel the internationalization plan entirely when the opportunity considered is disappointing.

§ 1. Introduction

Entrepreneurial behaviour is necessary for firms to establish, improve or maintain position in competitive environments (Miller, 1983; Entrialgo, 2000). The need to innovate increased in the past decade due to technological advancements, strong global competition and a financially constrained environment (Phan, 2009). Managers in firms of all firm size and firm age need to be entrepreneurial to develop and realize profitable strategic change (Entrialgo, 2000). An objective of this study is to learn more about the process and outcome of entrepreneurial behaviour within small firms compared to larger firms.

Entrepreneurial behaviour is strategic behaviour to renew a company and create new businesses (Baron, 2006). *Opportunity recognition* is thus at the heart of the entrepreneurial process (Baron, 2006; Puhakka, 2007). Entrepreneurship focuses on newness and novelty in the form of new products, new processes, new markets or new geographical regions (Ireland, 2003). It concerns identification and exploitation of previously unexplored opportunities in order to increase profitability (Hitt, 2001; Ireland, 2003).

To realize potential wealth from opportunities, another key aspect of entrepreneurial behaviour is *strategic advantage creation*. The exploitation of new opportunities contributes to the creation of sustainable competitive advantage and wealth. It involves development and realization of strategic change, requiring strategic management capabilities within the firm.

Opportunity recognition and strategic advantage creation (strategy idea development and strategy realization) are essential for growth and survival of all firms, both small and large, new and established (Ireland, 2003). Opportunity recognition and strategic advantage creation are not necessarily two separate steps in the strategy process that follow eachother in this order.

International expansion

Internationalization provides a good opportunity to study the entrepreneurial strategy process within firms of various size and age (Dess, 2003). Globalization and increased competitiveness encourages firms of all size and age to expand internationally. As the internationalization of business continues to accelerate, companies need to invest in developing capabilities to identify and exploit new opportunities abroad (Zahra, 2001). The entrepreneurial strategy process of internationalization typically requires advanced levels of entrepreneurial capabilities for both opportunity identification and strategic advantage creation (Zahra, 2005). Both aspects are challenging in an unknown, uncertain environment.

Until recently the general opinion was that firm age positively relates to international business success (Oviatt, 2005). The well-known Uppsala theory of internationalization (Johanson, 1977) claims that SME can not internationalize from the outset, as firms need to first build resources and experience in the domestic market (Wright, 2007). The basic premise of the internationalization process view is that firms increase commitment to foreign markets with growing experience in international business (Johanson, 1977). Traditionally, International Business scholars assumed that especially larger and more experienced firms expand into new and unknown markets, as these have the resources and capabilities to invest in development of uncertain strategic plans abroad.

Recent work on international new ventures shows that in present times, international expansion is not exclusively an activity for larger and established firms (Kuemmerle, 2002; Oviatt, 2005; Zahra, 2005). Technological advancements and the growing international experience of people increases the geographical scope accessible for small firms (Oviatt, 2005). The success rate of these international new ventures creates renewed attention for the relation between firm maturity and international business activities (Autio, 2002; Oviatt, 2005; Zahra, 2005). It changes how the Internationalization process is studied and opens the way to more complex analysis on international expansion of both small and larger firms with more or less experience in international business (Oortwijn, 2006).

Strategy process for SME and larger firms

Strategic management capabilities and entrepreneurial capabilities are essential for international expansion of firms (Hitt, 2001; Ireland, 2003). Entrepreneurial small firms tend to excel in opportunity-identification, but are less effective in developing competitive advantages needed to appropriate value from those opportunities (Hitt, 2001; Ireland, 2003). Established, large firms typically better create strategic advantage, but focus less on identification of new opportunities (Ireland, 2003).

Entrepreneurs inside organizations and independent entrepreneurs should spend sufficient time on opportunity discovery, because time invested in this phase affects performance of the furture business (Puhakka, 2007). The growth of new business is highly dependent on proactive behaviour in the opportunity discovery phase (Puhakka, 2007). In identification and exploitation of opportunities larger established firms should have an advantage, given their access to human and financial resources, social networks, knowledge and experience (Phan, 2009).This allows larger corporations to scan the environment and pro-acticely search for *new opportunities*. In practice, entrepreneurs often possess special talents for opportunity identification.

During the *strategy development* process, managers and entrepreneurs conceptualize rough ideas into business models (Baron, 2006). Firm size influences the strategy development process, as larger firms can afford to invest more in information gathering on markets abroad. They have the resources to evaluate the potential more realistically and can realize the benefits before any small firm or startup could (Phan, 2009). For complex decisions, the amount of information to be processed is enormous. Strategy development for an international business plan within small firms is often extra challenging (Knight, 2009). Given the limited financial and human resources available, international strategies are more often based on know-how, skills and general business competences of the individual decision maker (Knight, 2009). Small firms also have advantages, as they are less burdened with organizational inertial forces, they have founders in control so that new opportunities do not have to struggle for management attention and, moreover, information is processed quicker throughout the organization (Oviatt, 1994). Despite the fact that the chance of success for larger firms might be higher, exploring new opportunities remains an uncertain activity in which not all managers in large corporations prefer to participate. Entrance into foreign and unknown territories is a highly uncertain and high risk strategic move. Entrepreneurs are known to take higher risk compared to managers in larger firms (Stewart, 1999; Entrialgo, 2000; McMullen, 2006). Furthermore, within established firms, new opportunities might limit the value of the firm's current goods or services.

In implementation, small firms often lack spare resources to realize uncertain plans, decreasing the likeliness of *strategy realization*. Small firms less often have spare human resources available and are generally less experienced in managing business expansion. With increasing firm size, there is better access to financial assets to support investments abroad and realize strategic change (Davis, 2000). Larger firms tend to opt for higher commitment and higher risk entry modes, while SMEs often decide on low equity and cooperative strategies (Kogut, 1988; Agarwal, 1992; Brouthers, 2004; Gemser, 2004). On the other hand, established companies face added complexity which needs to be managed when internationalizing (Zahra, 2005).

Both opportunity identification and strategic management capabilities are required to generate competitive advantage in international expansion. Differences in performance occur from the quality of the opportunity, the location and context, and the modus of strategy realization (Zahra, 2005). Small and larger firms have different capabilities in these areas and manage the strategy process differently.

Scope and research questions

International expansion is ideally suited to study how firms of different firm size organize the strategy process to reap new opportunities. The decision of conducting business in or with foreign countries is highly strategic and full of uncertainties. Especially in foreign markets, firm expansion requires advanced skills in opportunity identification and advantage creation.

The main aim of this study is to learn how firm size, firm age and international experience relate to the entrance Go/No-Go decision outcome and the strategy process towards it.

- *How does firm size relate to the outcome of the entrance Go/No-Go decision?*
- *What process leads to a decision to cancel the international business plans?*
- *What is the relation between firm size, firm age, previous business experience and the origin of the plan to the outcome of the entrance Go/No-Go decision?*

The present paper reports on the strategy process of internationalization, including both the process and the outcome of foreign entry choices. The research conducted contains longitidunal comparative case studies of 54 plans from Dutch firms for business activities in or with China. These international expansion plans all concern new activities in foreign territories. Data is gathered on firm characteristics, opportunity identification, strategic advantage seeking, the Go/No-Go decision and the strategy process leading to this choice.

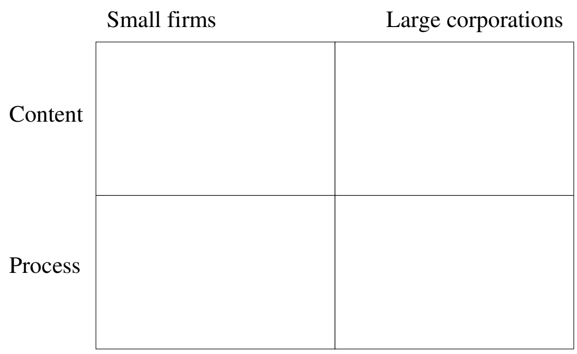

Figure 1: Typology of internationalization research

The academic domain of research on internationalization can be defined according to figure 1. Existing work on internationalization mostly concerns the content of choices and is conducted with larger firms, though some studies focus on small and/or startup firms (Dess, 2003; Oviatt, 2005; Zahra, 2005). Hardly any work covers the full range of firm size and age (Osborn, 1990; Dess, 2003; Keupp, 2009; Knight, 2009). So far, to the best of my knowledge, no studies report on small and larger firms, covering both the process and outcome of internationalization decisions (Dess, 2003). The present work is unique in that it allows for comparison of the strategy process and outcome of firms of different size, firm age and international business experience.

§ 2. Method

The study reports on the process and the outcome of the foreign entrance decision process. During 2006 and 2007, a number of 25 Dutch firms are studied while they consider to conduct business in or with China. This results in a comparative case study on a total of 54 entrance plans for business activities in or with China. Data is gathered by conductinhg several short telephonic interviews with the main decision maker during the time period, followed by an in-depth semi-structured interview of several hours conducted after choices for entrance are made by the firm. Before any interviews takes place, documentation on the company background is collected through desk research, e.g. internet search, company website, and if available annual report.

The process and outcome of the entrance plans are compared for firms of various *firm size*, *firm age* and *international business experience*.

The number of employees is measured to capture *firm size* (Coviello, 2003), applying below definition of firm size:
- Small firm: 1-50 employees
- Medium sized firm: 51-250 employees
- Large firm: 251-1000 employees
- Large corporations: >1000 employees

Previous business experience is made operational in *firm age* and *international business experience*. The definition for the level of international business experience is simply a division between firms with no previous international business activities and firms with previous international business activities (sales, production or purchasing).

The set of cases studied is well balanced with regard to firm and investment characteristics (Eisenhardt, 1989; Bell, 2004). The selection criteria for the cases are well-known influencing factors for foreign entry choices, e.g. foreign entrance motivation, firm size, industry and level of international business experience of the firm. As a result, findings are grounded in varied empirical evidence (Eisenhardt, 2007).

An important limitation in existing internationalization research is that most data is gathered post entrance. Due to the origin of the statistical data for these studies, the companies analyzed are those that indeed decided on entrance into the host country and are still present. This paper provides unique access to companies *before* the entrance decision. The findings reveal four different outcomes of the Go/No-Go decision, e.g. cancel, postpone, continue, alter.

§ 3. Results

A total of 54 entrance plans are studied as evolved within 25 firms of varying firm size. This paper reports on the process and outcome of 54 Go/No-Go decisions. The 20 entrance plans within small firms are discussed more in-depth below, covering the origin, the process and the outcome of the entrance decisions. Small firms more often than larger firms decide not to continue business activities in or with China. The results reveal what circumstances lead to cancelation of plans for small firms.

Outcome of the Go/No-Go decision

Of the 54 investment plans under consideration, only 33 continue in a manner similar to what was intended. Seven plans are seriously altered, e.g. continue in a different host country or with a different entry mode. Six plans are postponed and eight plans cancelled altogether. Especially small firms have a low rate of continuation for plans (figure 2).

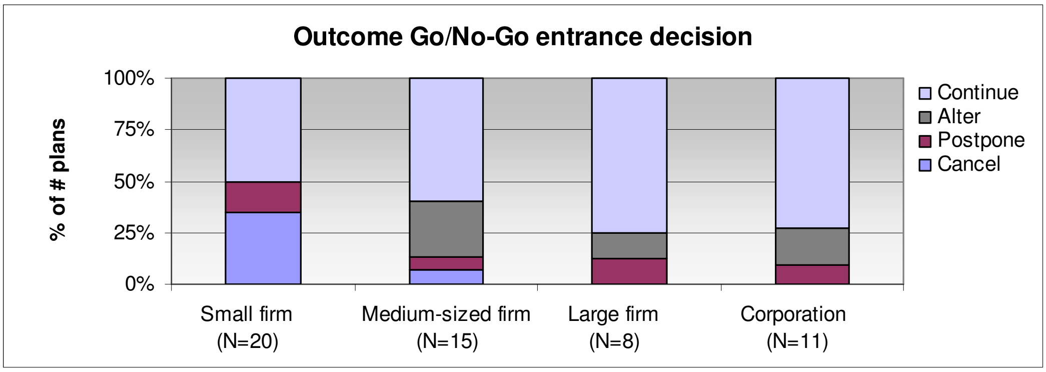

Figure 2: Outcome Go/No-Go decisions for 54 investment plans

The analysis of the outcomes of the Go/No-Go decision reveals how ten of the twenty plans of small firms do not continue, e.g. either are canceled (seven plans) or postponed for an unknown period of time (three plans). None of the small firms seriously alter a plan, e.g. moving forward with a plan with an entry mode or host country different from what is considered initially.

Large firms and corporations do not cancel any of the plans, while they do alter or postpone plans. The percentage of plans that continue increases with firm size.

How entrance choices are canceled

The three small firms who cancel in total seven plans for China, went through a similar process. All three firms are startups with an international business plan, e.g. they would have been born globals. The plans are based on an existing personal relationship in China. This personal relationship is considered an unique advantage and it in fact triggers the intention to develop business activities in China.

Below event flow matrix presents the events that occur in order of appearance (Miles, 1984).

Event flow	Firm 1	Firm 2	Firm 3
Become aware of network	Parents and brother of a Dutch entrepreneur live in China (and are Chinese).	Two Dutch brothers have a Dutch-Chinese friend with family in China.	Former boss of a Dutch entrepreneur joins a Chinese firm in China.
Share intentions business	The brother in China is searching for a job opportunity in business, and his Dutch-Chinese	The two Dutch brothers together with the Dutch-Chinese friend decide to start a business in China.	The former boss offers the Dutch entrepreneur a sales channel through the Chinese firm he

	sister wants to help.		now works for.
Develop business context	The Dutch entrepreneur meets exporter of silk Chinese sjawls and develops a plan to import certain silk products.	Local family invests in retail real estate and offers this at no rent if their daughter can become (local) manager.	The entrepreneur becomes a member of the local organization to gain legitimacy in the Chinese network.
Define opportunity	The Chinese operations are considered "easy", as the family/brother takes care of everything local, which helps her brother.	Decisions are made on the product category. Future position of the Dutch entrepreneurs (trade or retail) remain uncertain.	Business plan is to export products to China and import products to Europe, to sell through TellSell.
Start implementation	After the brother agrees, they together select the manufacturers in China.	After the retail location is bought by the local family partner, the Dutch entrepreneurs select an import agent in China.	An office is set-up in China at low cost and the first employee hired.
Define business plan	Then the Dutch entrepreneur starts developing the product business positioning and Marketing & Sales plan.	Four different business plans are developed. How the two firms divide roles and work together is still unclear.	Searching the markets for products that are suitable for EU TellSell or Chinese TellSell channels.
Perceive hurddles	Marketing & Sales is difficult in a business sector they normally do not work in.	The family in China is not moving forward and this is causing serious delays.	The EU TellSell channel is largely mature and products are difficult to find.
Decide to cancel	The entrepreneur hands over the plans to another Dutch entrepreneur, due to a lack of time.	The plan is canceled alltogether, as success depends on involvement of the local partner.	A refocus to a new business opportunity elsewhere, which seems more promising.

Table 1: Event flow analysis for small firms that cancel plans

The firms that cancel plans for China are all startups with limited international business experience and limited experience in China. The opportunities they pursue, are triggered by a personal relationship. When progress is dissatisfying or the relationship is perceived less as an advantage, the entrepreneurs do not continue the plans and stop the startup entirely. They do not have the time, experience, or resources to develop the business opportunity independently of the preferred local partner.

Below, the 20 entrance Go/No-Go decision of all small firms are compared, based on the firm experience, firm age and origin of the entrance plan.

Opportunity versus strategy driven plans of small firms

Table 2 reports on a comparison across all small firm cases. It reveals how opportunity driven startup firms, regularly *cancel* their plans for international business activities in China. These small firms who cancel plans: a) are not experienced in international business, b) are younger than 5 years and c) base the entrance plan on a specific local opportunity.

Small firms that a) are not experienced in international business, b) are younger than 5 years <u>but</u> c) do base the entrance plan on a strategic need from within the firm, generally do find ways to continue business activities, despite any hurddles along the way. They search for local partners with whom they can work and simply continue the search until a solution is found. These firms, despite a lack of a social network and international business experience, are determined to find opportunities to realize their strategic objectives in China.

	Firm experience IB	Firm age	Origin of the plan	Go/No-Go decision
1	No activities IB	<5 years	Opportunity driven	Cancel
2	No activities IB	<5 years	Opportunity driven	Cancel
3	No activities IB	<5 years	Opportunity driven	Cancel
4	No activities IB	<5 years	Opportunity driven	Cancel
5	No activities IB	<5 years	Opportunity driven	Cancel
6	No activities IB	<5 years	Opportunity driven	Cancel
7	No activities IB	<5 years	Opportunity driven	Cancel
8	Experienced in IB	5-15 years	Strategy driven	Postpone
9	Experienced in IB	15-25 years	Strategy driven	Postpone
10	Experienced in IB	15-25 years	Strategy driven	Postpone
11	No activities IB	<5 years	Strategy driven	Continue
12	No activities IB	<5 years	Strategy driven	Continue
13	Experienced in IB	15-25 years	Strategy driven	Continue
14	Experienced in IB	5-15 years	Strategy driven	Continue
15	Experienced in IB	15-25 years	Strategy driven	Continue
16	Experienced in IB	15-25 years	Strategy driven	Continue
17	No activities IB	<5 years	Strategy driven	Continue
18	Experienced in IB	5-15 years	Strategy driven	Continue
19	Experienced in IB	5-15 years	Strategy driven	Continue
20	No activities IB	<5 years	Strategy driven	Continue

Table 2: Small firm characteristics, origin and outcome of the entrance plan Go/No-Go decision

Firms that *postpone* activities, are more experienced firms with an existing strategic plan for which they seek opportunities. The firms that postpone plans are a) more experienced in international business, b) older than 5 years, and c) search for opportunities to fulfil an strategic objective (table 2). The strategic need is formulated within the firm and triggers a search for business opportunities in China.

The firms who simply *continue* plans in China are a varied mixture in terms of international business experience and firm age. Small firms that continue have in common with firms that postpone, that they develop entrance plans to fulfill an existing strategic need of the firm, instead of developing an entrance plan around an opportunity in China.

Of the firms that are medium-sized, large, or a large corporation, only one other firm did not seek opportunities in China based on an existing strategic firm needs. This was a medium-sized firm with no previous international business experience. It resulted in cancelation of their entrance plan.

§4. Discussion and Conclusion

The general perception is that entrepreneurs are better in realizing wealth from new opportunities. The present study shows how in an uncertain, foreign enviroment entrepreneurs have a lower chance of realizing a strategic advantage from new opportunities. The cases reveal how entrepreneurs often do not invest beyond a major dissapointment. A closer analysis comparing various cases shows how specifically strategic plans triggered by a concrete local opportunity have a smaller chance of realization.

Outcome of the entrance decision

Small firms more often cancel plans. Of the 20 international business plans of small firms, seven are canceled. These are small startup firms with no previous international business experience. What the companies also have in common is that a concrete opportunity in China triggered the intention to conduct business in or with China. The perceived opportunity is often based on a personal relationship, which is seen as a unique competitive advantage for business. It triggers the entrepreneurs to develop a strategic advantage from this opportunity (Zain, 2006). When the local contact does not deliver or the relationship is less solid than expected, these small firms do not search for new opportunities (with or without other local partners) to realize a strategic advantage. Small firms rely more on local partners -with whom they often have a personal relationship- to help set up international business activities (Coveillo, 1995; Oviatt, 2005; Zain, 2006). This more often results in a No-Go decision.

Entry commitment is related to firm size (Padmanabhan, 1999; Cho, 2005). Due to limited resources, the continuation rate of entrance within small firms is lower compared to larger and more experienced firms (table 1). Smaller firms often do not have the resources to invest beyond the initial disappointment or are simply less committed to international expansion to make the additional resources available (Davis, 2000; Graves, 2008). Larger firms more often decide to postpone or alter approaches to invest further in a search for new opportunities and fulfil strategic needs. Small firms can not afford to commit more resources to high risk projects. Larger firms do have slack resources which they not only can dedicate to the high-risk foreign expansion, but also can risk loosing. This makes them less vulnerable to failure (Osborn, 1990).

Internationalization process

The study reveals how increasing international business experience, firm age and firm size relate to a higher continuation rate in the Go/No-Go decision (figure 2 and table 2). Entry commitment is related to firm age, firm size and firm experience (Padmanabhan, 1999; Cho, 2005). The present study confirms that firm size relates to a positive entrance Go/No-Go decision (figure 1). Increasing firm age relates to a higher tendency to commit to an investment plan (table 2). And small firms with limited international business experience more often cancel plans (table 2). All firms who cancel plans are firms with no international business experience.

The question remains: Is it firm age, size or experience that creates the advantage associated with international expansion (Zahra, 2005). The findings do not support without any doubt the traditional Internationalization process theory premise that firms should first build resources and experience in the domestic market, before international business experience can be developed (Wright, 2004). While all firms who cancel are relatively young and inexperienced in international business, these characteristics do not automatically lead to cancelation in this phase. Table 2 shows how entrepreneurs can and do start international new ventures (Zahra, 2005). A different factor that might explain the outcome of cancellation is found in the order in which steps in the strategy process are taken.

Strategy driven versus opportunity driven

When reviewing the entire population of firms studied, most firms already have strategic advantages defined for international business activities before searching for opportunities available abroad (table 2). Generally, firms aim to realize a specific strategic advantage in international territory. This awareness of a firm's strategic need is what initiates the search for opportunities abroad, while simultaniously the strategic plan is developed in more detail. This is different for firms who cancel. Small firms more often initiate international business plans when triggered by a perceived opportunity in the form of a strong network relationship in China. These are the small firms that cancel plans for China. The findings suggest this is why more young, small, inexperienced firms arrive at a No-Go decision.

Previous work finds that large multinational firms generally adopt a process based approach for internationalization choices, while SME decisions are strongly influenced by the perspectives of individual decision makers within the firm (Collinson, 2005). We confirm small firms more often start internationalization based on one perceived opportunity. These small firms end up canceling plans. Other small start-up firms however, do initiate an active search for opportunities to realize an identified strategic advantage in international business. These small firms in our study decide to continue to conduct business in or with China. The higher rate of cancelation is related to firms that develop the internationalization plan because of a concrete local opportunity.

Suggestions for future research

An awareness and understanding of entrepreneurial behaviour within small and larger, new and established firms, helps to gain insight in economic growth, wealth creation and firm survival (Chandler, 2009). The present work reveals how certain small firms arrive at No-Go decisions. A limitation of the work is that it is conducted on foreign entry decisions of only 25 Dutch firms evaluating business opportunities for China. Additional research is recommended with larger sample sizes including various home and host countries, to make sure the most relevant factors for the outcome of the entrance decision are identified.

The present study reports on what triggers the strategy process for developing opportunities in China. For future work, a more detailed process analysis on the entire entry strategy process is recommended comparing firms of different firm size, to understand how various firms arrive at entry choices (Harris, 2000; Sarasvathy, 2001; Chandler, 2009).

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