
RESOURCES AND CAPABILITES OF THE INTERNATIONALIZATION EXPANSION OF FRENCH SMEs: AN EMPIRICAL STUDY

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ABSTRACT

Although small- and medium-sized enterprises (SMEs) have been a major source of economic growth not only in Europe and the USA, but also in the emerging economies, the factors underlying their expansion into international markets have received very little attention in the literature. Using data from 90 manufacturing SMEs from six French regions, we examined the impact of different resources and capabilities on the level of internationalization of each firm. The results indicate that low-cost manufacturing capabilities and proactive managerial orientation towards international operations are positively associated with increased internationalization. Surprisingly, a focus on using knowledge resources is not related to the level of internationalization of French regional firms. The implications of these findings are discussed within the context of developing sustainable competitive advantage of SMEs in a transitional phase of their internationalization.

KEYWORDS: Internationalization, regional development, resources, management, French SMEs

INTRODUCTION

It is well known that small and medium-sized enterprises (SMEs) are the most important driver of the European Union (EU) economy, as they comprise over 80% of all European firms. With the increasing competition from European and not European firms, the issues of SME sustainability and competitiveness have become a focus of attention for both governments and researchers as the French government must now deal with radical changes in its economy. While traditional enterprises were large industrial firms that were focused on mass production, the transition period in the French economy brought forth not only the restructuring of these firms, but also the emergence of both the new bride of SMEs and restructured firms (Hutchinson & Xavier, 2004). Consequently, SMEs in France have become the backbone of economic growth. Simultaneously, they are a source of much concern, as the SME sector remains the main source of economic growth, especially as firms still have difficulty accessing much needed financing (Hutchinson & Xavier, 2004) and firms are still plagued by high taxes.

With increasing competition from local and foreign companies over the last decade, more and more manufacturing companies in the six regions are being forced to look outside their home markets in order to survive. However, internationalization implies risk and uncertainty. Thus,

SMEs that are often limited in their resources might face higher uncertainty than large firms. As such, many SMEs that are successful in their domestic markets might fail in their attempts to enter foreign markets because of limited resources, lack of business experience and know-how, and increased competition. Thus, understanding what motivates SMEs to increase their levels of internationalization is important in understanding the survival of firms and the growth of the French economy.

Recent literature on internationalization debates the ability of traditional internationalization models (e.g., Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; Dunning, 1988) to explain the international behaviors of smaller firms and calls for not only testing existing theory, but also for the formation of new frameworks in new contexts (Madsen & Servais, 1997; Fillis, 2001; Peng, 2001). One of these new contexts has been the internationalization of SMEs. To date, research has focused on the internationalization decisions of large firms entering (e.g., Shama, 1995; Meyer, 2001; Nakos & Brouthers, 2002; Brouthers & Nakos, 2004). However, we still know relatively little about the internationalization activities of SMEs in particular. Our study addresses this gap by exploring the internationalization of manufacturing SMEs of six regions from a resource-based perspective. Specifically, we examined this issue by looking into whether the possession of cost-orientation capabilities, knowledge-orientation capabilities, and proactive managerial orientation influence the level of internationalization, and in what ways. We chose these resources because, although it is generally held that SMEs have the flexibility and ability to adapt to their environment more quickly than large enterprises, SMEs must be able to use these advantages in internationalizing. This paper allows us to see whether SMEs are indeed using these advantages.

We compare the resources and levels of internationalization of SME firms from the manufacturing sector in six French regions: Aquitaine, Brittany, Ile de France, North-Calais, Lorraine, and Rhone-Alpes. The firms include those established both prior and after the Euro was launched, which allows us also to understand whether the new currency affects the resources and capabilities of the firms toward greater internationalization.

We targeted SME firms for several reasons: the internationalization process is considered to be growing rapidly (Hoskisson, Eden, Lau, & Wright, 2000), in France very few studies of these firms have been conducted thus far in terms of outward internationalization, and SMEs in these regions have only recently begun their internationalization activities. Thus, this research allows us to capture some of the first steps of smaller firms in their international expansion activities. These internationalization activities are driven by several factors. The enlargement of the EU and removal of trade barriers have forced local firms to compete not only with more experienced western European ones, but also with other countries. These SME manufacturing firms have sought new markets not only to increase production volume, but also to establish ties in emerging markets and to improve profitability.

We next reviewed the literature on internationalization theory and the resource-based view, and linked this work to analyzing SMEs in the transition stage of their internationalization. We used these frameworks to develop three hypotheses that predicted the level of internationalization of SMEs. We then presented the methods and constructs applied in this study and its empirical results. We ended with a discussion of the results and implications for further studies of the

internationalization of SMEs.

REVIEW OF THE LITERATURE AND RESEARCH HYPOTHESES

Internationalization theories have generally focused on the effects of the environment, resources, and the experience of the firm on entry mode selection criteria. According to internationalization stages models, firms gradually increase their foreign market commitments, as sudden leaps to distant markets and complex entry modes are hindered by uncertainty that is fueled by lack of market information and differences in culture (Johanson & Vahlne, 1977, 1990; Cavusgil, 1982). Within this work, special attention is given to the importance of experiential knowledge, which can only be learned through personal experience (Johanson & Vahlne, 1977) and which increases with increasing market or product complexities. As firms acquire knowledge of and experience in foreign markets, they begin to enter physically more distant markets and to utilize higher-involvement entry modes. Johanson and Vahlne (1977) also state that the best way for firms to acquire experiential knowledge quickly is by hiring personnel who have experience with working in foreign markets or by acquiring another firm.

However, acquiring firms or employees is not the only way for firms to increase knowledge. Firms also do so by developing partnerships or relationships with other firms. More recently, there has been a focus on network models as a complement to stages theories. Coviello and Munro (1997) have argued that the integration of network theories with incremental internationalization models can help to understand better the internationalization processes of SMEs. Firms might use their network relationships with foreign partners to enter foreign markets, both physically close and distant, by sharing resources and coordinating actions with other firms (Johanson & Mattson, 1988). Johanson and Mattson (1988) proposed a framework for analyzing the possible international strategies of the firm based on its degree of internationalization and how internationalized the market is. Highly internationalized firms in global markets will already possess resources, which will attract network partners, and will coordinate their resources internally (Nummela, Saarenketo, & Puumalainen, 2004). On the other hand, newly internationalizing firms in already internationalized markets, such as the EU, will seek out foreign partners with the necessary resources to help them enter foreign markets (Knudsen & Madsen, 2002).

Much of the literature on the internationalization of the firm has focused on multinational enterprises (MNEs) (Andersson et al., 2004). More recently, however, scholars have begun examining the internationalization processes of SMEs. Not surprisingly, such research has revealed that smaller firms do not always behave in ways prescribed to larger enterprises (Knight & Cavusgil, 1996; Fillis, 2001; Bell, 1995). For example, SMEs might enter foreign markets from their inception, leapfrog initial foreign market entry modes, and even successfully compete with large global firms (Andersson, Gabrielsson, & Wictor, 2004; Bilkey, & Tesar, 1977). Hence, the appropriateness of stages models to explain the internationalization of SMEs has been debated in the literature. Andersen (1993) points out to several studies that have shown that SMEs do not select foreign markets as methodically as presumed by the incremental internationalization models. Andersson et al. (2004) argue that the stages model does not explain why some small firms internationalize while others do not. Likewise, Oviatt and McDougall (1994) and Knight and Cavusgil (1996) criticize the model as lacking explanations for the

internationalization of small, “born global” firms, which lack both resources and experience, as the stages model posits, are requisites for increasing internationalization. These firms are established by individuals with a global focus from the start and a commitment to rapid internationalization (Bell, Crick, & Young, 2004; Nummela, Puumalainen, & Saarenketo, 2005).

Although alternative explanations to stages models such as transaction costs analysis (Anderson & Gatignon, 1986) and Dunning’s (1988) eclectic paradigm have been developed, these frameworks have rarely been applied in analyzing the behavior of SMEs. Nakos and Brouthers (2002), for example, note only one study (Brouthers, Brouthers, & Werner, 1996), which applied Dunning’s OLI framework to small firms. Thus, it is questionable whether theories used to explain large firm behavior can be applied to SMEs (Lyles, Saxton, & Watson, 2004). It has been suggested that, although network theories provide insights into SME internationalization, they explain the mechanisms for overcoming resource constraints, rather than provide a stimulus for internationalization (Bell et al., 2004).

Peng (2001) argues that, despite the existence of relatively few studies analyzing SME internationalization from a resource-based view, this perspective might be a central point in explaining why some SMEs successfully internationalize while others do not. He uses the resource-based view to argue that it is knowledge about internationalization opportunities that serves as a primary resource of SMEs and gives them a competitive advantage in internationalizing. Dalli (1995) also states that it is mainly the availability of internal resources that determines whether small firms will be sufficiently committed to international activities. Hoskisson et al. (2000) have also stated that the resource-based view is one of the most useful theories for analyzing the early stage of SMEs internationalization. In addition to the resource-based view, Uhlenbruck, Meyer, & Hitt (2003) also propose that researchers consider organizational learning, as firms must learn to adapt to the dynamic environment, to recognize market opportunities, and to develop the capabilities to do so. In the case of SMEs, they state that it is likely intangible resources, such as knowledge, learning and human capital, that will give firms a competitive advantage, as opposed to tangible resources (Peng & Ilinitich, 1998).

THE INTERNATIONALIZATION OF SME FIRMS

Although there has been an increase in studies addressing the foreign entry strategies of firms investing in foreign countries, we still know relatively little about the internationalization strategies of SME firms themselves (Oviatt & McDougall, 2005). Several studies have addressed the issues of foreign direct investment sourcing strategies, location attractiveness, wages, and the institutional environment of countries (Meyer, 2001; Nakos & Brouthers, 2002; Bevan, Estrin, & Meyer, 2004), from the perspective of foreign companies investing in EU countries. Danis and Parkhe (2002) analyzed international alliances and differences in management practices between partners in 17 Hungarian-Western cooperative ventures, and found that Hungarians were more oriented toward personal relationships, production versus market orientation, autocratic management styles, hierarchical structures, and low sharing of information as compared to their western counterparts (Liuhto & Jumpponen, 2001). However, these studies focused on larger companies. There is yet a dearth of studies investigating these issues from the viewpoint of SMEs, especially a dearth of empirical studies analyzing international activity from the resource-based and learning perspectives. Research is needed to identify the key resources that distinguish

successfully internationalized SMEs and that provide a basis for competitive advantage to be exploited at the transition stage of internationalization (Meyer & Peng, 2005).

In considering resources, we take the broader definition of Meyer and Peng (2005), which includes organizational learning, knowledge, and capabilities. Firms in some European countries face many hurdles, such as bureaucratic obstacles and lack of financial capital, and it is generally thought that a major impediment to the internationalization of SMEs is a lack of resources. However, many firms do internationalize successfully, indicating they possess certain resources that give them advantages over other firms. According to Meyer and Peng (2005), the valuable, rare and nonimitable resources that allow firms to attain a sustainable competitive advantage in European countries are likely different from those of US firms, and a key challenge is in identifying them. Among those resources that might be most important for EU firms are networks and flexibility (Meyer & Peng, 2005), as well as tacit knowledge, top management attitudes and experience, and cost strategy. Uhlenbruck et al. (2003) state that flexibility, which stems from the ability to identify and acquire resources through organizational learning, is especially important in a dynamic environment. We address this challenge by considering the impact of resources and capabilities in the hypotheses developed in the following sections.

KNOWLEDGE-ORIENTATION AND COST-ORIENTATION CAPABILITIES

In this and the following section, we first consider the impact of a knowledge-orientation within the firm and then consider a cost-orientation within the firm and the respective link to the level of internationalization.

Because firms in a transition stage generally lack physical capital resources (Steensma, Tihanyi, Lyles, & Dhanaraj, 2005), both the resource-based and learning perspectives are useful in explaining the internationalization levels of SMEs, as these firms must not only overcome their lack of physical resources, but also acquire knowledge about markets and develop the skills needed to successfully internationalize (Eriksson, Johanson, Majkard, & Sharma, 1997). In addition, SMEs must also overcome numerous external barriers, such as macro environmental variables and lack of information and knowledge. In the transition stage, market information is typically provided by state agencies, and firms neither employed environmental scanning nor possessed the knowledge of how to internationalize (Uhlenbruck et al., 2003). According to Hitt, Dacin, Levitas, Edhec, and Borza (2000) SME firms are unlikely to be able to compete with MNE firms in product technologies, and their management capabilities and decision-making skills are likely to be underdeveloped, as top managers have less experience than MNE managers. Among the main challenges to learning by SME firms, Uhlenbruck et al. (2003) list the lack of prior knowledge needed to identify which opportunities to pursue and which resources to use in doing so.

The difficulties regarding knowledge and learning merit greater understanding because increasing internationalization involves information and knowledge accumulation (Liesch, Welch, Welch, McGaughey, Petersen, et al., 2002). Because SME firms often cannot compete on tangible resources, they are more likely to rely on intangible “resourcefulness,” such as forming ties with other firms and leveraging their specific knowledge (Peng, 2001). Uhlenbruck et al. (2003) note several ways for firms to acquire tacit knowledge, such as establishing alliances with

customers and suppliers, observing successful firms, or hiring employees with specific knowledge. Coviello and Munro (1995) note that internationalization activities stem not only from the strategic decisions of company management, but also from the opportunities arising from the firm's network of relationships with other firms. The ability to learn from other firms can help the firm to attain higher performance and competitive advantage (Hoskisson et al., 2000). However, firms do not necessarily have to rely on firms within their own national boundaries for such knowledge. Smaller firms have the advantage that they are more likely to work through intermediaries to obtain knowledge, which might help them to achieve more rapid internationalization (Peng, 2001). As knowledge is often embedded in the firm's routines and social context, smaller firms might also more easily absorb knowledge, as they do not have to overcome existing organizational rigidities. As such, knowledge resources linked to learning from external players should be particularly important to SMEs.

Besides learning from customers and other external players, SMEs also need to utilize their human capital. The company's general staffing decisions (e.g., hiring and training) determine the firm's ability to continue internationalizing (Liesch et al., 2002). It is important for SMEs to recognize the potential of their human resources, to be able to attract skilled employees, and to use their capabilities. Peng (2001) points out several studies (e.g., Lee & Miller, 1999) that have shown that companies that view employees as a valuable source of competitive advantage are more likely to attain that advantage. In particular, SMEs that develop knowledgeable and skilled workers can use them to create a competitive advantage. Companies that value their employees and those which seek unique skills in their employees will provide an important resource that should assist in internationalization. Thus, having a focus on obtaining knowledge and developing internal learning capabilities will positively influence the level of internationalization of SMEs:

Hypothesis 1: The greater the knowledge-orientation of SME firms, the greater the level of internationalization.

Although internationalization has been linked to the firm's ability to leverage tacit resources and knowledge across borders (Kogut & Zander, 1992), the primary advantage a firm has for international operations might simply be related to cost. Previous studies considering cost and internationalization have considered either internationalization and cost structures (Pan, 2002; Mansi & Reeb, 2002) or the cost strategies of domestic firms in a non-US context (Lyles et al., 2004). Having a cost orientation might be especially beneficial for firms in Europe for several reasons. In western European countries, wage levels are considered high (Slovakia wins, 2004), with basic education enrollment above 95% (United Nations Economic Commission for Europe, 2000). As such, aside from location advantages, SMEs in the regions might be able to benefit from a cost strategy in attracting customers and undertaking internationalization (e.g., in using the low-cost wage reservoir from Central and East European countries). The regions have a strong history of manufacturing and engineering capabilities, which would further support a low-cost orientation (Kogut & Zander, 2000). Thus, we predict that having a cost-orientation might provide a viable approach to expand in international markets:

Hypothesis 2: The more cost-oriented SME firms are, the greater their level of internationalization.

MANAGERIAL ORIENTATION

According to Fahy, Hooley, Cox, Beracs, Fonfara, et al. (2000), the rapid change in the economic environment implies that the issue of resource development and exploitation is “crucial.” Although it is important to have the right set of resources and capabilities, a firm must be able to use them properly. Management has the responsibility to develop the means of leveraging resources and capabilities. Therefore, the capabilities of top management of firms are critical to their success (Hitt et al., 2000). For example, Allmendinger and Hackman (1996) find that an aggressive managerial orientation combined with proper resources can be the difference between survival and failure for organizations transitioning from national to international markets. This issue of managerial orientation is especially important in SME firms, where general management skills are still limited, and managers might base their current decisions on prior knowledge. Fey, Adaeva, & Vitkovskaia (2001) also highlight the importance of managerial leadership in the success of firms in transition stage. Because most SME decisions are made by one or a few top managers, we expect that managerial characteristics will influence the level of internationalization. In line with the findings of researchers (Wiedersheim-Paul, Olson, & Welch, 1978; Cavusgil & Naor, 1987; Reuber & Fischer, 1997; Harveston, Kedia, & Davis, 2000; Knight, 2001), we expect that the attitudes of managers in SMEs will influence the level of internationalization of the firm. The attitude of interest for this study is the attitude of managers towards being successful in international operations. We call this a “proactive orientation” of management towards internationalization.

A proactive view toward establishing relationships, having an international outlook, and acquiring an understanding of the company’s advantages are factors that are expected to distinguish more internationalized companies from those less so. According to Ireland, Hitt, and Sirmon (2003), small companies and new ventures tend to be more skilled in identifying opportunities, but are less so in exploiting them over time than large firms. Thus, a proactive attitude toward exploiting international opportunities can make a difference, even for a company with other resources and capabilities. This is an important point for SMEs, because individual managers in SMEs wield greater influence over the firm’s decisions than in larger companies. Having a top manager who is committed to using the firm’s capabilities to initiate and increase its level of internationalization should lead to internationalization success. As a result, we predict the following:

Hypothesis 3: The more positive the managerial orientation of firms is towards internationalization, the greater the level of internationalization.

METHODS

SAMPLE AND DATA COLLECTION

To test our hypotheses, we collected data through questionnaire surveys from a sample of companies in six French regions: Aquitaine, Brittany, Ile de France, North-Calais, Lorraine, and Rhone-Alpes. We identified a sampling frame of small and medium size industrial manufacturing firms. In accordance with EU Commission recommendations (2003), SMEs were

defined as companies having fewer than 250 employees and an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

Our sampling frame was derived from the Kompass database (Tavares & Young, 2002). This database covers almost two million firms and allowed us to form our sampling frame with the following criteria: (a) SME firm (as defined above), (b) locally owned, (c) involved in manufacturing. In total, 2404 firms were identified that met our criteria in the six target regions. Using this database allowed us to target both a broad range of French regions and active companies. In contrast, firms in local registers are often registered, but were inactive or near bankruptcy. The alternative option of using import-export directories of the country also appeared unreliable as these directories consisted of few companies and primarily small exporters.

The questionnaire was developed simultaneously in French and English. Back-translation was not conducted from English due to the researcher's bilingual capabilities. However, the English-language version was thoroughly checked for any inconsistencies in meaning, and small corrections were made before distributing the final version.

The survey was administered to 2404 companies in several stages both electronically (by e-mail) and by post from May 2005 to May 2006. Companies were sent reminders 3 and 6 weeks after initial receipt of the survey. In total, 274 companies responded, for a response rate of 13.2%. Our response rate is not atypical of the rate for international surveys, especially with the secretive nature with which firms in France treat their data (Harzing, 1997). Of those responding, some were excluded because they did not want to participate ($n = 39$), were incomplete ($n = 41$) or they did not meet our criteria as SMEs ($n = 7$). This left us with 187 usable surveys. Of these, we focused on the 90 firms that were involved in contract manufacturing because that is a common initial step towards internationalization (Peng & Luo, 2000). Table 1 provides detailed response rates by region. To test for nonresponse bias, we used the firms that returned surveys, but that declined to participate as representative of firms that did not return a survey. Using two-tailed t tests, we found no significant differences between respondents and nonrespondents regarding firm size.

TABLE 1. RESPONSE RATES BY REGION

Region	Ile de France	Rhone-Alpes	Aquitaine	Brittany	North-Calais	Lorraine	Total
Surveys sent	578	366	494	463	208	295	2404
Undeliverable	94	57	76	68	11	18	324
Received	72	50	85	36	12	19	274
Incomplete	12	9	12	6	0	2	41
Non-SMEs	6	0	1	0	0	0	7
Declined participation	19	9	5	5	1	0	39
Usable	35	32	67	25	11	17	187
Response rate	14.9%	16.2%	20.8%	9.1%	6.1%	6.9%	13.2%

RESEARCH INSTRUMENT

The questionnaire consisted of three parts. The first part included general questions about the company, such as date of establishment, legal status, number of employees, and ownership. The second part of the survey consisted of several groups of questions concerning the reasons for internationalizing, the process of internationalization, the countries in which SMEs conduct international activities, and the degree of involvement in each country. The final group of questions in this section asked respondents to indicate the extent of agreement on a 5-point Likert-type scale to a series of statements about their contract manufacturing activities and the extent to which various barriers hinder their internationalization activities. These questions were included with the intent to gauge the attitudes of managers, who have network ties, toward internationalization in general, and to capture the drivers and barriers to the initial steps of the internationalization process. The focus on network relationships is important, especially, as these ties facilitate access to resources and information (Peng & Luo, 2000; Lyles et al., 2004). The last part of the questionnaire included questions about respondent demographics.

MEASURES

The constructs in our study were all measured with multi-item scales. A listing of the items and the question format used to develop the independent variables are provided in Appendix 1.

Dependent variable. The dependent variable for this paper is the firm's Level of Internationalization. This variable is operationalized by calculating the weighted average of a firm's international operations across different countries. Each respondent was asked to indicate the number of countries with which it was engaged in each of the following operations: foreign manufacturing contracts in the home market, exporting, licensing or contract manufacturing abroad, sales subsidiary, joint-venture, or wholly owned subsidiary. The literature on internationalization stages distinguishes various stages of international activity and treats internationalization as entry into foreign markets and acquisition of experience through export or direct investment modes (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977). We follow this general approach and added the fulfillment of foreign orders in the home market, also known as "contract manufacturing." We included contract-manufacturing activities in the home market as an initial step in the internationalization process as firms might be internationally active without having a presence in foreign markets (Cavusgil, 1982).

We used the following formula to gauge the level of internationalization: (# of contract manufacturing countries served from the home market * 0.5) + (# of export countries * 1) + (# of contract manufacturing or licensing countries * 2) + (# of sales subsidiary countries * 3) + (# of JV countries * 4) + (# of WOS countries * 5). This weighted average approach gives greater weight to operations that involve greater investments, greater risk, and greater presence.

In their review of internationalization measures, Hassel, Hopner, Kurderlbusch, Rehder, and Zugehor, (2003) found only three measures of Level of Internationalization in the literature: the UNCTAD Transnationality Index, the Transnationality Spread Index of Ietto-Gillier (1998), and the Degree of Internationalization Scale of Sullivan (1994). These indices measure the

internationalization of the world's largest multinationals and are comprised of data that is not accessible for SMEs of six regions. Thus, we had to rely on a more simplistic measure to capture the level of internationalization of SMEs in the regions. Our measure is based on the premise that internationalization follows a pattern beginning with pre-export ties in the home market and ending with foreign production (Johanson & Vahlne, 1977). Thus, higher involvement entry modes are considered to involve more risk, investments, and other resource commitments than lower modes (Dunning, 1998). In an attempt to synthesize the existing "degree of internationalization" measures, Hassel et al. (2003) included the variable Geographical Spread, defined as the total numbers of countries in which firms are active. When we compared their geographic spread categories (where 0-7 countries indicates a low spread and over 16 countries a high spread) to ours, the results were very consistent (Pearson's $C = .829, p < .001$).

Independent variables. The first independent variable, Knowledge Orientation, measures the degree to which a firm's competitive advantage is based on the key resource of knowledge. The measure was developed based on the Knowledge Specificity measure of Noorderhaven, Nooteboom, and Berger, (1998) and the Knowledge Intensity construct of Autio, Sapienza, and Almeida (2000). Five items from the survey were used to measure this variable, with a Cronbach α value of 0.75. The measure is an arithmetic mean for the five items.

The second independent variable, Cost Orientation, measures the degree to which a firm's competitive advantage is based on cost. The respondents assessed three items on a 5-point scale regarding the degree to which they perceive that their buyers are interested in securing low prices, the extent to which received orders are labor-intensive and the extent to which firms view low price as a main advantage. The Cronbach α of this scale was 0.53. Although this reliability score is somewhat low, we include the measure on the basis that Cronbach α scores above 0.50 can be considered acceptable for exploratory studies (Nunnally, 1978). This measure is an arithmetic mean of the three items.

The third independent variable, Management's Orientation, is based on the firm's response to five items. The items were developed based on previous work that has focused on managerial views towards international operations (Wiedersheim-Paul et al., 1978; Noorderhaven et al., 1998; Mockaitis, Vaiginiene, & Giedraitis 2006). The questions comprising this construct focused mainly on the extent to which firms actively pursue opportunities in international markets, through seeking out and retaining network relationships, acquiring information about international market opportunities and using it to secure an advantage over competitors. The Cronbach α of this five-item scale was 0.73. This measure is an arithmetic mean of the five items.

Control variables. Because the level of internationalization might be influenced by various factors such as firm size, industry, country, and founding period, these were included as control variables in the study. We measured Size as the natural log of the total number of employees in the firm. Size might be related to the level of internationalization given that larger firms tend to have resources that are more available (Calof, 1993, 1994; Barkema & Vermeulen, 1998). Thus, we expect this variable to have a positive relationship with the level of internationalization. The firms are grouped into five Industry categories: automobile and electrical parts (26 firms), machine and metal processing (71), plastic and rubber (27), pulp and paper (21), and textiles

(42). These categories are similar to those used in prior research (Hitt et al. 2000; Khanna & Rivkin, 2001). Dummy variables were assigned for each industry category. Because we dropped the “textile” category while assigning industry dummies, the coefficients for the other industry categories are to be compared against this category. To account for unobserved differences across regions, dummy variables were assigned for each region (Shaver, Mitchell, & Yeung, 1997; Kogut, Walker, & Anand, 2000). Because we dropped the North-Calais category while assigning region dummies, the coefficients for the other regions should be compared against this region. The last independent variable is Transition, which denotes whether the firm was founded before transition from national currency to the European one. We set the start of the transition stage at 2000 for all of the regions in our study. We coded this variable as 1 if the firm was founded before the Euro and 0 if the firm was founded after the emergence of the new currency. In our sample, 23 firms were founded after the Euro. The remaining 67 firms were founded before it.

RESULTS

Table 2 provides the correlation matrix and descriptive statistics for the dependent and key independent variables used in our study. The dummy variables for industry and region are not included for simplicity. Transition stage is a binary variable and the rest are continuous variables. Correlations for the primary independent variables are 0.34 or lower. VIF values were below 4.0 for the industry and region dummy variables and below 2.0 for all other variables, which is much less than 10, the level at which multicollinearity would be a concern (Neter, Wasserman, & Kutner, 1990).

TABLE 2. DESCRIPTIVE STATISTICS AND CORRELATION MATRIX (N = 90)

Variable	N	Mean	StD	1	2	3	4	5	6
1. Level of Internationalization	90	9.58	7.60	1.00					
2. Knowledge Orientation	88	3.58	0.71	0.13	1.00				
3. Cost Orientation	89	3.34	0.70	0.24*	0.23*	1.00			
4. Managerial Orientation	89	3.36	0.87	0.22*	0.34**	0.23*	1.00		
5. Transition	90	0.26	0.44	0.07	0.11	0.08	0.27**	1.00	
6. Size	90	4.24	1.10	0.24*	0.45**	0.20†	0.36**	0.44**	1.00

Note: $p < .10 = \dagger$; $p < .05 = *$; $p < .01 = **$

The results of our modeling are presented in Table 3 using OLS. Model 1 reports the results for only the control variables. We see that larger firms are more international than smaller firms. This result holds in all the models. The industry control variables do not contribute significant explanatory power to the model.

Model 2 shows the results for analyzing the relationship between the knowledge-orientation of the firm and the level of internationalization. We had predicted a positive relationship, but knowledge orientation does not demonstrate a significant relationship with internationalization, after controlling for the other effects in the model. Thus, Hypothesis 1 is not supported

suggesting that developing a strong knowledge base does not significantly contribute to increasing internationalization in firms. This result is similar to that found by Mockaitis et al. (2006), regarding the importance placed on learning capabilities of firms.

TABLE 3. RESULTS OF OLS REGRESSION.

	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	-7.15	-7.23	-20.92**	-13.58*	-24.73**
Knowledge orientation		0.02			-0.93
Cost orientation			3.46**		3.29*
Managerial orientation				2.13 [†]	2.31 [†]
Control variables					
Transition	-0.34	-0.42	-0.95	-1.11	-1.80
Size	2.76**	2.76*	2.78**	2.38*	2.63*
Region					
Brittany	2.63	2.45	3.14	3.25	3.65
Ile de France	6.90 [†]	6.91 [†]	8.94*	8.42*	10.44**
Rhône-Alpes	5.90 [†]	6.00 [†]	6.80*	5.96 [†]	6.81*
Lorraine	1.14	1.13	3.66	1.15	3.40
Aquitaine	4.21	4.20	5.49	4.25	5.71
Industry					
Auto and electric	2.08	3.17	5.73	2.44	6.44 [†]
Machine and metal	0.84	0.88	1.62	1.36	1.92
Plastic and rubber	4.19	4.27	7.27*	6.24 [†]	9.01*
Pulp and paper	-1.94	-1.94	-0.57	-0.49	0.72
<i>N</i>	90	88	89	89	87
<i>R</i> ²	0.14	0.14	0.21	0.18	0.25
Adjusted <i>R</i> ²	0.02	0.01	0.09	0.05	0.10
<i>F</i> Value	1.17	1.06	1.71*	1.36	1.70 [†]

Notes: The dependent variable is "level of internationalization." For Region, the omitted dummy variable is North-Calais. For Industry, the omitted variable is Textile. $P < .10 = \dagger$; $p < .05 = *$; $p < .01 = **$ using two-tailed tests.

Model 3 reports the results for the relationship between the degree of a cost-orientation in the firm and the level of internationalization. We had predicted a positive relationship and the results support this prediction. Thus, firms that have developed an ability to manufacture cost-competitively have, on average, increased levels of internationalization, controlling for the other variables in the model. This positive relationship holds in the full model (Model 5) as well. Thus, Hypothesis 2 is supported for both the partial and the full models.

The results for the relationship between managerial orientation and the level of

internationalization are depicted in Model 4. We had predicted a positive relationship and the estimated coefficient for this independent variable is positive and significant. This positive relationship holds in Model 5 as well. Thus, Hypothesis 3 is supported, suggesting that management attitudes towards internationalization are associated with the level of internationalization that the firm achieves.

Model 5 reports the results using all of the independent variables. The coefficients associated with cost-orientation and managerial orientation continues to be positive and significant and the knowledge orientation variable continues not to contribute significantly to the model. The coefficients for Ile de France and Rhône Alpes are significantly positive.

DISCUSSION AND IMPLICATIONS

With this research, we set out to better understand factors that are related to the degree to which SMEs from the French six regions internationalize. To achieve this, we developed a set of hypotheses based on different resources and capabilities that firms might use in internationalizing (Madsen & Servais, 1997). We found that cost-orientation capabilities and a proactive orientation toward foreign expansion are positively related to internationalization, whereas a knowledge orientation was not significantly related.

Perhaps most surprising was the finding that a knowledge orientation was not significantly related to the level of internationalization, after accounting for the control variables. Given the tacitness of knowledge and the importance of learning to succeed in international markets, a knowledge orientation was predicted to have an impact on internationalization. There are several possible explanations for this finding. The first reason might be related to the work of Johanson and Vahlne (1977, 1990), who posited that knowledge about foreign markets might only be acquired through working in those foreign markets. This experience leads to lower uncertainty and greater commitments in foreign markets. Given that SMEs from the six regions are relative newcomers to the international arena, the explanation might be that knowledge resources and learning have not become sufficiently integrated in the firm's operations, or firms have not yet developed the necessary absorptive capacity (Uhlenbruck et al., 2003). The second possible explanation links to the first. Namely, by developing ties with foreign firms (e.g., buyers) and exploiting the cost orientation capabilities the firms already possess, these SMEs are giving themselves time to develop the knowledge and learning systems needed to be successful in their future international operations. As wages in Europe increase and regulatory requirements due to EU membership raise costs, the cost advantage experienced by these firms might erode. In light of other research that did not find a relationship between cost-orientation and firm survival in EU SMEs (Lyles et al., 2004), future research might inform us whether a knowledge orientation becomes more important as the cost advantage of firms decreases.

The use of cost orientation capabilities has clear policy implications beyond the regions in our study. Although firms in other EU markets might have an initial cost advantage, that advantage might disappear over time. Thus, firms need to establish capabilities to learn and to build knowledge-based resources. Governments in EU markets should also determine how their firms can be competitive in global markets and encourage this two-prong approach. The strategy of the Chinese government to encourage low-cost manufacturing while concurrently encouraging or

requiring firms from developed economies to undertake more value-added activities in China is one example of an emerging economy's use of such an approach (Michailova & Liuhto, 2000).

The results regarding the positive and significant relationship between managerial orientation and internationalization underline the importance of intangible resources for SMEs. Smaller firms tend to have a disadvantage in terms of physical resources and the results for the control variable Size suggest that, everything else held constant, larger firms tend to be more internationalized. However, a proactive view of managers, coupled with other capabilities such as a cost-orientation, might be the foundation for success. Future studies might examine this management orientation in other European regions where institutional constraints might not result in such a strong influence from management attitudes and orientation.

Although not the focus of the paper, it is worth noting that firms from Ile de France and Rhone Alpes, showed evidence of greater levels of internationalization in different models, relative to the ones of Lorraine. As Meyer and Peng (2005) indicated, there might be interactions between institutional frameworks and the resources and capabilities of firms. Additional studies that consider variation in institutional frameworks would be of benefit, not only better explaining managerial behavior, but also providing policy guidance to governments. Clearly, the common currency entry has provided SME firms access to a much larger market, which can encourage internationalization (Makhija & Stewart, 2002). Additionally, meeting EU requirements might have forced firms to improve their legal and business frameworks, easing the internationalization process for smaller ones. Future research might be able to clarify this question.

Also interesting were the results regarding the control variable Transition. Although previous research indicated that many SME firms were slow to change to the international-market, that constraint did not have an influence on our results (Kogut & Zander, 2000; Hitt et al., 2000, (Manolova, Brush, Edelman, & Greene, 2002). This lack of significance might be related to our focus on SME firms or that those firms that were not able to adjust to the international competition have already failed.

As with any research, this work has several limitations. The first is that we focused solely on the manufacturing sector. Because there were few service firms operating during the period of our study, we chose to focus on the manufacturing sector to ensure representation of firms founded before and after the birth of the Euro. Future work could consider the internationalization of service SMEs and how that process compares to the manufacturing SMEs in the regions. Although age of the firm did not have a significant effect on the level of internationalization in our study (results not reported here), we did not distinguish between established firms and "new ventures." A comparison of the internationalization activities of these types of firms across countries would also be of interest for future studies.

In this study, we focused on the current level of internationalization of firms with network relationships in their home markets to assess the extent to which related resources are important drivers of internationalization, but not the process of internationalization itself. Many of the firms in our study rely on low cost to secure manufacturing contracts from foreign buyers in their home markets (Uhlenbruck & De Castro, 2000). Whether these network ties help firms to enter foreign markets on their own and whether firms are able to use their cost advantages and other

resources in entering foreign markets is not known. Further research might also focus on the degree to which SMEs leverage these resources in their internationalization process and direction of internationalization.

Despite these limitations, we believe that our study makes three contributions to the literature on transitional stage of the internationalization of SMEs. First, it provides a starting point to better understand how SMEs in Europe are taking initial steps to internationalize. By expanding beyond their home markets, they not only have the opportunity for growth, but also the potential to be serious competitors in the global economy (Ghoshal, 1987). Second, the results regarding different resources indicate that not all intangible resources are equally important. For SMEs, having a proactive orientation appears more important than developing knowledge resources and learning capabilities. Third, firms in transitional stage clearly have resources and capabilities that can be used in the international arena. Our research suggests that a cost-orientation is one such resource. Firms and their governments should leverage this orientation as much as possible when appropriate, but also consider that a cost advantage might not be sustainable. We invite other researchers to track the development of SMEs in other European regions to determine how strategies change over time as the economies develop and competition from other countries becomes more intense.

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APPENDIX 1

The survey respondents were asked to indicate the extent of agreement to each statement concerning their contract manufacturing activities: 1 = *completely disagree*, 2 = *disagree*, 3 = *somewhat agree*, 4 = *agree*, 5 = *completely agree*.

Cost Orientation (alpha = 0.53)

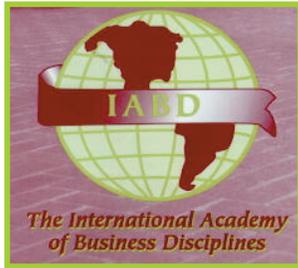
1. Our buyers are mainly interested in securing the lowest price
2. The orders we receive are labor-intensive
3. Low price is our main advantage

Knowledge Orientation (alpha = 0.75)

1. The fact that we do business with international buyers has increased our technological know how.
2. We have made substantial investments in order to meet delivery times demanded by our customers
3. We have invested much time in learning how to assure the quality demanded by our international customers
4. We try to increase our employee skills on a regular basis
5. We conduct employee training regularly

Proactive Orientation (alpha = 0.73)

1. We aggressively pursue any opportunities for international orders
2. We regularly conduct buyer searches
3. We always try to secure orders from new companies
4. We search for buyers throughout the world.
5. We seek buyers with the intent to find potential partners for investment activities in the future.



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