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## **A taxonomy of strategic postures of international SMEs**

Birgit Hagen, Department of Economics and Management, University of Pavia, Italy, Via San Felice 7, 27100 Pavia, [birgit.hagen@unipv.it](mailto:birgit.hagen@unipv.it)

Antonella Zucchella, Department of Economics and Management, University of Pavia, Italy, [antonella.zucchella@unipv.it](mailto:antonella.zucchella@unipv.it)

Jorma Larimo, [jorma.larimo@uwasa.fi](mailto:jorma.larimo@uwasa.fi), Department of Marketing, University of Vaasa, Finland

Pavlos Dimitratos, [Pavlos.Dimitratos@glasgow.ac.uk](mailto:Pavlos.Dimitratos@glasgow.ac.uk), Adam Smith Business School, University of Glasgow, UK

### **Abstract**

This study provides a theoretical analysis of SME strategic postures and presents empirical evidence of strategic types of international SMEs across three European countries, namely Italy, Finland and Greece. Empirical investigation based on a sample of more than 550 international SMEs is performed through cluster analysis. Findings suggest there are four broad strategic types, i.e. the entrepreneurial/growth oriented group of firms, a marketing/selling group of business, a cluster of firms which lack strategic orientation and strategy, and the cluster which focuses on innovation/technology and core manufacturing competencies. The taxonomy provides a description and an explanation of international strategic postures and the basis for theorizing on SMEs' international behaviour and outcome consequences. Any programs – business- and policy-wise - which aim to stimulate internationalization would benefit greatly from tailoring recommendations to the nature of the strategic types.

**Key words:** strategic orientation, strategic types, international strategy, SME

internationalization, Italy, Finland, Greece

## 1. Introduction

This study aims to identify and understand the nature and the role of strategic types of European small and medium-sized Enterprises (SMEs) which are internationally active.

Extant knowledge on strategic types refers to many different research streams and theoretical perspectives and provides a scattered portrait of this important issue. A multitude of partially overlapping orientations has been conceived in the different fields, from strategic management and marketing to innovation to entrepreneurship studies just to mention a few. Although findings in all streams concur to the view that the firms' strategic posture is crucial to survive and prosper in a domestic competitive environment (e.g. Noble *et al.*, 2002) only little research informs about its role in determining the *international* strategic behaviour and performance (Fahy *et al.*, 2000; Liu *et al.*, 2011; Cadogan, 2012). This is even more true for SMEs (Bell *et al.* 2004; Solberg and Durrieu, 2008), mainly because their behaviour has been viewed as reactive and not driven by differentiated and clear strategic orientations (Bilkey and Tesar, 1977; Westhead *et al.*, 2002). Literature suggests that resource poverty which includes the lack of management expertise, limited financial resources (Lages and Montgomery, 2004), disadvantages of lack of economies of scale, and informational constraints (Buckley, 1989) combined with individualized leadership make SMEs decisions reactive and serendipitous to a greater extent than those made in MNEs (Child and Hsieh, 2014).

A more proactive and strategic stance in small and new firms has been recently supported by international entrepreneurship studies, but the broader universe of internationally oriented SMEs and their potentially alternative strategic postures needs further investigation. A recent study by Hagen *et al.* (2012) identifies four major strategic types in a sample of Italian SMEs (namely the entrepreneurial, the product-oriented, the market-oriented type of firms and the group which lacks strategic posture) and relates these distinct firm groups to differentiated strategic behaviours and international performances.

The present study aims to establish a taxonomy of strategic postures of international SMEs at the European level and to verify the existence of the mentioned strategic types through a cross-country analysis. In so doing, the research develops types amenable to empirical scrutiny and falsification and offers important insights as to the strategizing and strategic orientations of international SMEs in different contexts.

With our study we connect to the idea and the interest in configurational research. Such research conceptualizes firms holistically, seeking to recognize archetypal patterns in the display of structures and systems (Drazin and Van de Ven, 1985; Mintzberg, 1983; Miller and Friesen, 1984). Organizational attributes are seen to fall into coherent patterns because of their interdependency. Especially in the small- and medium sized international firm this holistic approach has merit as fits or misfits in elements of firm orientation and strategy will be more easily identifiable and are expected to have more immediate performance effects than in large more complex and more resource-rich enterprises. What follows from such a holistic configurational approach is that functional relationships among firm elements might hold for specific groups but not for others: for example, firms might thrive in a competitive international environment through the pursuit of innovation or customer orientation but their strategic approach must be embedded in an appropriate pattern of coherent structures and processes. A taxonomy therefore not only describes differentiated patterns or types in the SME universe but it also offers potential for better explanations of firm phenomena and outcomes.

Our research context, international SMEs from three European countries, namely Italy, Greece and Finland, also allows to look beyond endogenous pressures and to identify potential exogenous influences such as country affiliation. The inclusion of multiple countries therefore will either add external validity to or define boundary condition for our international strategy types. In other words, we may be able to describe either universal or context-

dependent strategic configurations both of which are of value to research and management practice. Overall, the development of a taxonomy of international SME strategic postures provides the basis for a better understanding of the firms' internationalization behavior and decisions, for instance their timing and market selection. It offers guidance to the formulation of hypotheses and allows theorizing the impact on a wide range of organizational outcomes such as international performance and firm growth. Finally, such a set of SME strategic types is of great value to policy makers and practitioners alike. Managers might compare "ideal" profiles with the current company profile and identify areas to act upon and routes to superior international outcomes. Moving beyond single determinants of international performance has merits especially in the small firm where the decisions to change and their outcome consequences should be related to existing competences and resources. Policy makers instead may find advice on how to tailor efficient support programmes for targeted groups of international SMEs from which subsequent growth in employment, value added and innovation can follow (e.g. OECD, 2010; Bernard and Jensen, 1999).

The study fits with a generally intended RBV frame, inclusive of the impact of firm strategic orientation and strategy which have been considered capabilities and resources (Hunt and Lambe, 2000; Wang and Ahmed, 2007). Building on such firm-level features corresponds to a resource-based frame, which is well suited to the study of SME archetypes and internationalization (Peng, 2001; Fahy, 2002; Dhanaraj and Beamish, 2003). As mentioned above, resources, i.e. the lack or availability or the unique combination thereof, may determine the pursuit and the success of firm objectives and activities one of which is internationalization.

The paper is structured as follows: we provide a literature review on strategic types and related constructs, especially the strategic orientation dimension and its links with competitive and functional strategies. A presentation of key aspects related to the sample and the study methodology is followed by the analysis and discussion of the empirical results. The paper

ends with conclusions and implications of the study for researchers and practitioners and discussion of the limitations of the study and future research avenues.

## **2. Towards a unified strategic typology of international SMEs**

Strategic types have emerged as an important research field in strategic management and strategic marketing and, to some extent, in international business and entrepreneurship. The idea of strategic types links to the interest in configurational research. Scholars here conceptualize firms holistically, seeking to recognize recurrent patterns in organizational structures, systems and processes (Drazin and Van de Ven, 1985; Mintzberg, 1983; Miller and Friesen, 1984). This research on classification of firms has been conducted under many different labels such as typologies (e.g. Miles and Snow, 1978), archetypes (Miller and Friesen, 1978), taxonomies (e.g. Hambrick, 1984), strategic postures and orientations (e.g. Noble *et al.*, 2002).

The underlying assumption of configurations is that firms can be better understood by identifying distinct, internally consistent groups of firms than by seeking to uncover relationships that hold across all firms (Ketchen *et al.*, 1993). Its value lies in its potential of *describing* firms along important dimensions. Rich descriptions of firm-level features (such as strategic orientations, strategies, unique capabilities etc.) of distinct sets of firms however also point to the strength of *explanation* and *prediction* of firm performance and organizational outcomes in general.

Despite these advantages, the use of the concept beyond organization theory and strategic management has been limited (Short *et al.*, 2008). In particular, strategic typologies of small firms, and especially international firms, are largely missing. This might be due to the fact that these firms have been described as lacking a “rational pursuit” of internationalization decisions as mentioned earlier or because one of the dominant theoretical approaches to

explaining SME internationalization, the process model (Johanson and Vahlne, 1977), concentrates on stages (Ruzzier *et al.*, 2006) and describes the process of internationalization as being quasi automatic, without being influenced by firm competences and strategies (Andersen, 1993). However, single elements of strategic types or aspects of strategy, such as standardization/adaptation decisions, alliances and networks, new product/service development for (international) markets, or strategic orientations have been discussed and related to international performance (e.g. Knight, 2001; Solberg, 2002; Schmid and Kotulla, 2011; Lee *et al.*, 2006; Ruzzier *et al.*, 2006).

Strategic configuration is understood as commonly occurring clusters of attributes of organizational strategies, structures and processes (Ketchen *et al.*, 1993) and so expands explanation from single determinants to a holistic view. The characteristics of strategic postures, which are mainly used to describe small firm orientations, resemble this definition: strategic posture is understood as the way in which the firm should generally position itself and respond to its environment and it is seen to be embedded in the firm's culture, structure and routines (Noble *et al.*, 2002). These commonalities lead us to interpret strategic typologies and strategic orientations as overlapping concepts and general guiding principles of the firm.

## 2.1.Strategic postures – an overview

Our intent here is to examine the basic thoughts and contributions associated with extant research on strategic types. We start with an overview of the Miles and Snow typology and then turn to small firm typologies which are mainly based on the construct(s) of strategic orientations.

One of the most widely used firms' strategic posture in *strategic management* follows the Miles and Snow (1978, 1986) typology. The authors conceptualized strategic orientation in

terms of reactors, defenders, analyzers, and prospectors. Whereas reactors lack a consistent strategy, defenders adopt a conservative view of strategy and hold a secure market position. They tend to operate in stable and narrow product or market domains with particular customer groups and an established structure. Contrary to defenders, prospectors foster innovation and change. They emphasize new market opportunities, emerging trends, and technology. Typically they maintain an aggressive competitive position and tend to be industry pioneers. Defenders and prospectors depict two ends of a continuum of strategic proactiveness. Analyzers, being the combination of prospector and defender orientation, fall in the middle of this continuum. They share elements of defender and prospector firms by maintaining both, a secure position in a core market while seeking new market positions.

Important links to entrepreneurship research, which is strongly concerned with small businesses, can be found in Miller's (1983) correlates of entrepreneurial behavior in three types of firms. He identifies the simple firms, which are small and with centralized decision-making, the bigger planning firms, with their goal being smooth and efficient operation through the use of formal controls and plans, and organic firms, which strive to be adaptive to their environments, emphasize expertise and open communication. In general, however, research on small firm strategic postures has approached the topic mainly from the angle of strategic orientations. Here researchers build on a multitude of constructs ranging from the dominant postures of entrepreneurial orientation and market orientation, to innovation orientation, and many more - less prominent - constructs such as product/inward orientation.

Studies on entrepreneurial posture were introduced by Covin and Slevin (1990, 1991) and Lumpkin and Dess (1996). Entrepreneurship scholars have agreed that *entrepreneurial orientation* (EO) is a combination of three dimensions, namely innovativeness, proactiveness, and risk-taking (e.g. Lumpkin and Dess, 1996; Avlonitis and Salavou, 2007): *Innovativeness* stands for the tendency to support new ideas, novelty, experimentation, and creative



processes, thereby departing from established practices and technologies. *Proactiveness* means anticipating and acting on future needs in the marketplace, thereby creating a first-mover advantage (Lumpkin and Dess, 1996). Associated with *risk-taking* is the willingness to commit resources to projects with uncertain outcomes, or where the cost of failure might be high (Wiklund and Shepherd, 2003).

*Innovation (sometimes labelled technology) orientation (IO)* characterizes organizations which implement new ideas, products or processes (Hurley and Hult, 1998; Hult *et al.*, 2004; Knight and Cavusgil, 2004). It is related to investments in technological leadership and with high quality products (Fritz, 1996; Gatignon and Xuereb, 1997). The concept of *market orientation (MO)*, is highlighted in strategic marketing (Kohli and Jaworski, 1990; Narver and Slater, 1990; Raju *et al.*, 2011). MO includes two major sub-dimensions, namely *customer orientation and competitor orientation*. The construct places the highest priority on superior customer value creation and delivery that in turn lead to continuous superior performance for the business (Narver and Slater, 1990).

With its pursuit of production and other operating efficiencies *production orientation (PO)* aims to produce widely available and relatively inexpensive products and services. (Kotler, 2002; Fritz, 1996; Noble *et al.*, 2002; Mavondo and Farrell, 2003). Here, in order to establish competitive advantage, the firm delivers reasonable quality at the lowest price, an orientation which has been described highly effective in some contexts, for example in emerging markets such as China (Zhou and 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). Market share expansion and short-term sales maximization come to the fore. SEO aims at fast returns, sustained by heavy promotion and broad distribution (Zhou and Li, 2007).

Although a large body of research exists for the many of the single constructs in the various research streams, research has mainly concentrated on the large firm in its domestic context. With regard to the smaller firm and its internationalization endeavours, international entrepreneurial orientation is one of the most dominant orientations under study and seen to be one of the key determinants of early, fast and intensive internationalization in the international new venture (INV)<sup>1</sup> stream of research in International Entrepreneurship (e.g. Knight and Cavusgil, 2004). Also innovation or technology orientation has been described as a catalyst for internationalization and an internationalization enabler in the small firm (e.g. Higòn and Driffield, 2010) and Armario *et al.* (2008) among others find a positive relationship between market orientation and international competitiveness.

Overall, research has begun only recently to bridge different research streams and to examine interactions, i.e. complementarity or alternative approaches and studies that compare the effectiveness of different orientations in similar circumstances or to achieve certain goals are rare (for an excellent review please see Hakala, 2011; e.g. Zhou *et al.*, 2005; Shoham *et al.*, 2002; Hagen *et al.* 2012; Sørensen, 2012).

As our core interest is in typologies building on strategic orientations we briefly review extant work as proposed by Berthon, Hulbert and Pitt (1999, 2004), Paladino (2009), Hakala and Kohtamaki (2001), Shoham *et al.* (2002) and Hagen *et al.* (2012). The first three studies illustrated in Table 1 essentially argue for complementarity, i.e. organizations having several orientations simultaneously. They dichotomize two or more strategic orientations (high-low) in order to build their strategic types. Shoham *et al.* (2002) looks into types as alternatives, i.e. one at a time, while Hagen *et al.* (2012) allow for identification of complementarity and/or alternative approaches across elements of five strategic orientations. Results of the first three empirical configurations coherently demonstrate distinct (high-low) combinations of multiple

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<sup>1</sup> Firms that internationalize fast, intensively and at a broad geographic scale at or close to foundation.

postures and distinct strategic type – domestic performance relationships. Overall they promote the combination of strategic orientations as being beneficial to the performance of the firms in a wide range of corporate performance outcomes and types of firms. Hagen *et al.* (2012) as well as Shoham *et al.* (2002) identify alternative types in samples of small international firms. Under a holistic view, both studies add strategy variables to strategic orientations and show that a firms' strengths and strategic responses are related. While Hagen *et al.* (2012) echo the Miles and Snow's (1978) conclusion that strategic types are equally viable in international markets, the strategies identified by Shoham *et al.* (2002) differ widely in yielding international outcomes.

Table 1: A review of taxonomies involving SOs

|  | Empirical/<br>theoretical   | Countries<br>involved            | SOs studied   | Alternative/<br>complementary<br>/sequential?  | Dependent /outcome<br>variables   | Types  |
|--|---|----------------------------------|---|--|---|--|
| Berthon, Hulbert<br>and Pitt (1999,<br>2004) | 124 middle-senior<br>managers<br>attending senior<br>management<br>executive<br>development;<br>wide range of<br>(mostly), for-profit<br>organizations. | 82 % US;<br>no other<br>details. | Innovation orientation<br>and customer<br>orientation;  | Complementary  | Combined, subjective:<br>ROI, market share,<br>competitive position   | 4 types: interact, shape,<br>follow, isolate;<br>Two types outperform the<br>others.   |
| Berthon, Hulbert<br>and Pitt, 1999           | theoretical   |                                  | Innovation and<br>customer orientation;   | Complementary  |   | Theorize 4 types: interact,<br>shape, follow, isolate  |
| Paladino (2009)                              | Business Units in<br>240 top<br>performing<br>manufacturing<br>companies  | Australia                        | Market orientation<br>and resource<br>orientation   | Complementary  | Combined effects on<br>financial performance<br>and innovation;<br>Balanced is best.  | 4 types unfocused<br>imitators or followers;<br>market-driven innovators;<br>masters of innovation;<br>and financial champions;<br>two types outperform the<br>others;<br>Low/ low combinations<br>poorest performance |
| Hakala and<br>Kohtamaeki<br>(2001)           | 164 software<br>companies > 5<br>employees  | Finland                          | Customer orientation,<br>technology<br>orientation,<br>entrepreneurial<br>orientation   | Complementary  | Subjective.<br>Organizational learning<br>– experimentation, ;<br>owner satisfaction with<br>performance, growth,<br>profitability in<br>comparison to<br>competitors | 3 types; integrators,<br>intermediate players,<br>servants; Differences in<br>composites of learning and<br>performance; single items<br>vary;   |
| Shoham <i>et al.</i><br>(2002)               | 193 active<br>exporters   | Australia                        | Miles and Snow<br>strategic types;<br>Strategic options, such<br>as marketing focus,<br>customer contact,<br>production focus, new<br>product development | Alternative<br>(responders are<br>classified according to<br>self-typing<br>paragraphs;<br>description they<br>consider most | Relate strategies (not<br>strategic types) to<br>export intensity (foreign<br>sales to total sales);<br>overall perceived<br>success of export<br>activities          | 3 types; exclude reactors<br>(too low number (10), 29<br>analyzer; 54 defenders,<br>69 prospectors) No clear<br>cut strategic differences<br>between types; strategies<br>explain between 8- 79 %<br>of international  |

|                     |                        |       |   |                              |   |  |
|---------------------|------------------------|-------|---|------------------------------|---|--|
|                     |                        |       |   | appropriate)                 |   | performance differences. Partial fit;  |
| Hagen et al. (2012) | 184 international SMEs | Italy | EO, IO , MO, Product orientation, Selling orientation | Alternative or complementary | Export intensity (foreign sales over total sales) | 4 types, all configurations (except the “lack of strategy type”) present viable routes to international performance; equifinality; contingency approach. |

Summarizing the extant work, we find that research has started to investigate the intricacies between different SO but empirical validation is partial and opens questions more than answering them, e.g. regarding the capacity to and benefit of “balancing” more than one strategic orientation and, more in general, the type of combinations that are possible and beneficial to a particular firm objective. In an international context very limited work is available and none of the studies draws on a cross-country sample. Additionally and importantly, we have an incomplete understanding on the exact role of strategic orientation and the processes through which they influence performance (Wales *et al.*, 2011, Hult *et al.*, 2005) and international performance in particular.

## 2.2. Strategic postures, firm strategies and competencies

Following this line of thought, building strategic types on the basis of strategic orientations alone provides an incomplete picture and our understanding of *how* they impact organizational outcome remains partial. Also, coherent with the idea of configurational research, the definitions of strategic types and orientations make reference to strategy, routines, and capabilities.

Slater and Narver (1996, p. 59) for example propose that “understanding the link between market orientation and strategies...is important to our comprehensive appreciation of market orientation’s contribution to organizational effectiveness”. Morgan and Strong (1998) suggest that market oriented activities must be articulated by the firm in a way that allows leverage of performance and that this can be achieved by strategic means. This is echoed by Wales and

colleagues (2011) who state that for firms to benefit from EO managers must properly manage entrepreneurial decisions and act within their organization. They suggest, in line with Covin *et al.* (2006), to include more constructs which are associated with the multitude of aspects of firms functioning such as strategy, and sets of competencies and capabilities.

Miles and Snow (1978) for example suggest that their strategic types will differ with respect to strategy, functional strength and characteristics. The authors state that prospector firms will tend to grow through product-development and market-development strategies, defender firms will prefer to grow through the strategy of market penetration and, finally, analyzer firms will tend to balance both types of growth strategies. In fact, significant differences related to (business and functional) strategy have been found by Hambrick (1984), McDaniel and Kolari (1987), and Conant *et al.* (1990) among others.

As regards functional strategies, prospectors have been described with heavy emphasis on new product/service development and not on process R&D. They intensively advertise and promote their output, and manage to charge premium prices. High emphasis is put on brand loyalty and quality and they are characterized as being growth oriented (McKee *et al.*, 1989; Miles and Snow, 1978; 1986; Buzzel and Gale, 1987; Hambrick, 1983). On the contrary, defenders could be best described as valuing process R&D, directing their attention towards reducing manufacturing and distribution costs, and seeking high-capacity utilization. They scarcely engage in advertising (and promotion), emphasize their product on either a price or quality basis, do not value customer orientation and product – market changes and are able to underprice if necessary (Wright *et al.*, 1995; Dess and Davis, 1984; Miles and Snow, 1986; Porter, 1980).

Strategic orientation research instead has neglected the role of strategy and other key firm features in the relation of SO and firm performance (Moreno and Casillas, 2008). However, many analogies can be drawn with the MS typology: prospectors which are characterized by

fostering innovation and change, by competing mainly by exploring new market opportunities, share many commonalities with entrepreneurially- and market-oriented firms. Defenders, with a more conservative view of strategy, aim to hold a secure market position often in stable and narrow product or market domains with particular customer groups and an established structure and thus might be compared to the product/or inward oriented firms. We therefore could assume that also their functional responses are comparable to the MS types which have been widely investigated. Second, extant literature on single SO constructs might shed some light on the SO-strategy association. Zhou *et al.* (2007) argue that a customer orientation is more likely to be associated with a differentiation strategy which aims at satisfying customers better. On the contrary, firms being characterized by competitor orientation might rely on cost advantages because these firms tend to watch costs closely. In the same line Homburg *et al.* (2004), Narver and Slater (1990) and Pelham and Wilson (1996) confirm customer orientation to be crucial to achieve differentiation advantages but they also add the importance of the understanding of competitors and innovation orientation. Also the focus strategy is likely to be associated with customer orientation: these firms are asked to understand thoroughly the needs of their target customers. Since the niche offers protection from competition, competitor orientation might be of lesser importance (Frambach *et al.*, 2003; Campbell-Hunt, 2000, Luostarinen and Gabrielsson, 2002). This holds also for innovation orientation that has been found to be less involved by Zahra (1993) and to no extent by Campbell-Hunt (2000).

Kumar *et al.* (2000) show that organizations pursuing a differentiation strategy had stronger market orientation than those pursuing a cost leadership strategy. Market orientation also had a more positive impact on the performance of organizations pursuing a differentiation strategy than on those pursuing a cost leadership strategy. In the field of EO, Moreno and Casillas (2008) introduce the concept of growth into the EO-performance discussion and study a

number of relationships simultaneously (i.e. EO, strategy, environment, resources and growth). They essentially confirm the EO-strategy relation but the association depends on external and internal contingencies.

Following the lines of this work which has been developed mainly for large and domestic firms we assume it is the combination of SO and strategy elements, i.e. the strategic type, which is conducive to competing also in international markets. This hypothesis finds further support by the fact that the elements of strategic types, e.g. new product development, manufacturing efficiency, and various strategic orientations have been shown to affect international competitiveness and international performance in SMEs (eg Luostarinen and Gabrielsson, 2002; Knight, 2001; Knight and Cavusgil, 2004; Armario *et al.*, 2008). The two configurations in active internationalizers described by Shoham *et al.* (2002) and Hagen *et al.* (2012) find a such relation between strategic type and international outcomes, e.g. export intensity, width of geographic scope and speed of internationalization. We therefore theorize that internationally sustainable SMEs, our cohort of study, strategically develop and preserve such differentiated combinations which account for performance in the international arena.

As is the case for large firms, prospectors or entrepreneurially oriented small firms can be expected to be the growth oriented firms which strive to develop new international markets quickly. For example, INVs have been described as having an entrepreneurial orientation and as creating/exploiting market niches with innovative and globally standardized market offerings (eg Hagen and Zucchella, 2014; Hennart, 2014; Rialp *et al.*, 2005). The general SME context and related strengths and weaknesses would also suggest that cost leadership is less feasible than differentiation or specialized production (Galbraith *et al.*, 2008). In turn we may hypothesize that innovative product/services, processes and specialized product as well as marketing solutions originate from both market/customer orientation and innovation orientation. The ensuing differentiation advantage enhances competitiveness, at home and

abroad. Differentiation has been argued to help firms enter foreign markets at an early stage (Golovko and Valentini, 2011) and foster international expansion of small firms (Lu and Beamish, 2001). Additionally, differentiation is usually cost-intensive and, together with shortening life-cycles, demands for quick amortization. Small firms therefore have also a strong incentive to sell their products/services abroad.

In summary, the general argument of extant research that strategic types affect performance is here extended to cover not only domestic but also foreign market performance. The understanding of the combination, the fit between orientation and strategic elements and its consequences is considered to be even more crucial for the small firm as missteps in the international arena will have more immediate and wide ranging effects than for larger firms.

### **3. Elements of the small firm strategic posture**

With our approach we aim to shift away from assessing the efficacy of a singular/combination of strategic orientation to identifying and examining a taxonomy of strategic types that accounts for “the proper behaviors that are created through SO” (Noble *et al.*, 2002) to compete in an international marketplace.

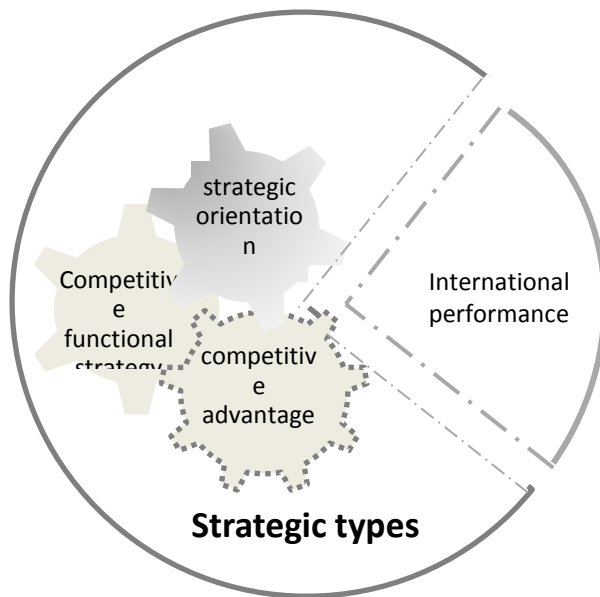
We have argued above that different strategic orientations can be expected to vary in the way in which opportunities are recognized by the firm and in the way in which firms act upon these opportunities. The underlying assumption is that strategic beliefs underpin the strategic actions taken by the firm (Lau and Bruton, 2008). Consequently, firms are hypothesized to value different competitive and functional strategies according to their strategic posture.

An approach that is able to investigate synergies and complementary mechanisms among the various aspects outlined above might give some further insight into SMEs’ way of strategising. We thus decided to follow a holistic approach in order to uncover differentiated strategic SME types and to simultaneously integrate strategic orientations, strategy, and



competitive advantage into our conceptual framework. These dimensions combine to potentially distinct strategic types that in turn are hypothesized to impact differently on internationalisation patterns and performance as is illustrated in Figure 1.

Figure 1: The conceptual framework



Therefore, the final framework useful for empirical identification of strategic types incorporates a set of variables regarding (see Appendix for operationalization examples):

- *strategic orientation*, operationalized with key items relative to dimensions of alternative strategic orientations, motivations for internationalisation, and management attitudes and characteristics;
- *sources of competitiveness/competitive advantages* expressed by product/technology/price and/or marketing advantages;
- the *firm's competitive and functional strategy*, operationalizing the focus/ differentiation/ cost-leadership strategy and the degree of standardisation/adaptation in major markets.

While the identification of strategic types is the primary goal of our study, describing the link between strategic types and international performance might yield interesting insights

regarding their potential performance implications. International performance is measured here with key dimensions such as export intensity, a commonly used indicator of the degree of internationalisation (Sousa, 2004), its growth, aspects of speed and precocity to international markets as well as geographical spread of activities (scope).

Our more general argumentation, consistent with the RBV, is that small firms' capabilities, competences and resources, and internationalization behaviour and patterns are strongly interlinked.

#### **4. Research Design**

Our aim is to uncover strategic types and their potential association with internationalisation behaviour of SMEs across Italy, Finland, and Greece. These countries were chosen because they represent a variety of European realities with different economic characteristics, degrees of firm internationalisation, institutional structure and national culture. While SMEs dominate all three economies under investigation, in Italy they are more prevalent in manufacturing, in particular in traditional sectors such as food and beverages, clothing, as well as the manufacturing of metal products and machinery while in Finland innovative or knowledge-intensive sectors prevail (European Commission, 2010). The influence of market size is factored with the Italian large domestic market in the center-south of Europe and the two more peripheral countries, Finland and Greece, with small domestic markets. Also policy- and institution-wise, the three countries are complementary. Finland's profile is one of the strongest of all EU-Member states while Italy and Greece are positioned at the lower end of the institutional ranking as is confirmed by the World Competitiveness Report (WCR) (World Economic Forum, 2008). Although the WCR indicates all three countries among the innovation-driven countries, the rankings show a wide gap in competitive positions: Finland is ranked 6<sup>th</sup>, Italy 46<sup>th</sup> and Greece 67<sup>th</sup> respectively. Finally, in terms of internationalization,

Finland outperforms the EU average in all but one indicator of internationalization while Greece is underperforming in all but one with Italy providing an intermediate position (European Commission, 2010)<sup>2</sup>. Given the complementarity of the three country profiles, our research findings should be representative for a wide range of country contexts.

The analysis has been carried out on data gathered through a structured questionnaire with closed questions, which is part of a larger cross-European research project. It was pretested locally and translated and back-translated into the respective country languages in order to increase understanding and enhance response rates. Multi-item, 5-point-Likert scales (for a total of 72 items) were used to operationalize the constructs of strategic orientations, competitive/functional strategy, and competitive advantage (see Appendix, Figure A and tables II and II for operationalization examples; questionnaire main sections are indicated in table III in the Appendix).

Representative samples of international SMEs were drawn randomly from national company registers. The firms had to be SMEs (10-250 employees) and have regular international (export) activities. The target respondent was the CEO or the most knowledgeable manager regarding international activities. The mail surveys took place in the period from late 2006 to early 2007 and included one reminder. Response rates varied from 17 to 25 % across the countries, which can be considered acceptable (Harzing, 2000). No significant differences were found between respondents and non-respondents based on criteria including size and international activities of the firms. The 576 questionnaires eligible for analysis (230 Greek, 201 Finnish and 145 Italian questionnaires) do not only stand for rare cross-country research, they also represent a large sample size in the field of small firm internationalization research. Descriptive statistics of the sample are exhibited in table 2.

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<sup>2</sup> SMEs with extra-EU exports (% of SMEs in industry), SMEs with extra-EU imports of goods, cost required to import/export, time required to import/export; nr of documents required to import/export.

Table 2: Descriptive statistics of the entire sample (n=576)

|                                    | min            | max | mean  | std    |
|------------------------------------|----------------|-----|-------|--------|
| age (years)                        | 4              | 99  | 27,86 | 16,376 |
| B2C (0/1)                          | 0              | 1   | 0,21  | 0,41   |
| B2B (0/1)                          | 0              | 1   | 0,79  | 0,41   |
| scope 2000                         | 0              | 192 | 9,6   | 13,469 |
| scope 2005                         | 1              | 192 | 12,75 | 15,038 |
| scope 2007 expected                | 0              | 100 | 15,06 | 14,791 |
| export intensity 2000 (%)          | 0 <sup>1</sup> | 100 | 35,65 | 32,893 |
| export intensity 2005 (%)          | 1              | 100 | 42,34 | 31,954 |
| export intensity 2007 expected (%) | 0 <sup>2</sup> | 100 | 48,23 | 31,37  |
| time to 1st market (years)         | 0              | 161 | 11,05 | 16,135 |
| time to 2nd market (years)         | 0              | 51  | 2,07  | 4,067  |
| time to 3rd market (years)         | 0              | 29  | 1,72  | 3,325  |
| employees 2003                     | 0 <sup>1</sup> | 250 | 50,18 | 53,978 |
| employees 2005                     | 1              | 250 | 53,63 | 55,286 |

1) 0 if firms are founded after 2000

2) 0 if a firms expects to deinternationalize /withdraw from all international markets

An ANOVA analysis comparing baseline variables of the samples, i.e. age, size, and B2B or B2C activity, did not find important differences across the country-samples. Only in the case of age Italian firms are significantly older than their Greek and Finnish counterparts ( $F=24,124$ ,  $p<0,01$ ), a fact which reflects the Italian mature SME landscape. Additionally, we compared extreme (high/low) and central (acquiescence) response patterns across the countries (He and van de Vijer, 2012). An ANOVA over all research items confirms similarity for the “high value”- patterns but significant differences in low and central response patterns appear. A visual inspection (please see figure B in the Appendix) and subsequent ANOVA analyses and post-hoc comparisons over questionnaire sections confirm that differences are *not* systematic patterns across countries (please see Table III in the Appendix). We therefore consider the groups uniform, with a difference (i.e. age of Italian

firms) that does not appear to be significant enough to prevent combining the three in one group.

Cluster analysis has been employed in order to detect *homogenous strategic groups*. Firms within a cluster (a strategic type) are expected to show the same coherent pattern with regard to combinations of SO-strategy and competitive advantage, while these patterns must be very distinct across the groups. Cluster analysis allows for the inclusion of multiple variables as sources of configuration definition and therefore enables potentially rich descriptions (Ketchen and Shook, 1996) of such patterns. Clustering has been used in order to develop taxonomies in strategy research by Galbraith and Schendel (1983), Zahra and Covin (1993), Slater and Olson (2001), Malhotra *et al.*, (2005), Kabanoff *et al.* (2008) among others. In an international context it was applied for example by Morrison and Roth (1992) who used the technique to detect business strategies in global industries, Cavusgil and colleagues (2003) who developed a taxonomy of strategic orientations as related to export pricing and Schmid *et al.*'s (2015) configuration and coordination of international marketing activities.

## **5. Empirical findings and discussion**

We employed the *k*-means procedure available in SPSS for clustering. *K*-means is the appropriate procedure when hypotheses regarding the number of clusters exist: a four cluster solution has been fixed as almost all reviewed work elaborates on four strategic types (e.g. Miles and Snow, 1978, Paladino, 2000, Shoham, 2002; Berthon, Hulbert and Pitt, 2004; Hagen *et al.*, 2012)<sup>3</sup>.

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<sup>3</sup> We have also checked alternative 3- and 5- cluster solutions for interpretative/cluster quality: they did not yield any significant advantage as compared to the 4-cluster solution (eg the 3-cluster solution showed one group of businesses which exhibited the highest values across all items and the 5-cluster solution exhibited a relatively similar pair of clusters).

As is expected, in a first step, the significance of the four cluster solution is confirmed with the ANOVA procedure<sup>4</sup>. If the overall ANOVA is significant, robustness of results can be further substantiated with a post hoc analysis of multiple comparisons of the means. Multiple comparisons have been carried out with least significant differences (LSD). For the sake of convenience we report (highly) significant mean differences of characterizing items across the clusters in the tables 3-5<sup>5</sup> together with the discussion of the respective cluster profiles. The strategic clusters will then be linked to their internationalisation performance. The description of this association is not only interesting because of its potential performance implications, it is also useful to validate the outcome of the strategic type clustering. The validity of clusters, i.e. the theoretical approach and the research variables, can be assessed through external variables that should be theoretically related to the clusters, but not be used in defining the clusters (Ketchen and Shook, 1996; Punj and Stewart, 1983).

*Cluster 1: innovation/technology – product(ion) oriented group of firms*

This group of businesses is characterized by an innovation-technology and/or a core manufacturing=product(ion) orientation. Looking at highest across cluster values, these firms motivate their internationalization efforts with “unique product/service” as well as with “tax benefits”, “economies of scale”, “closeness to international clients” and “internationalization of the firm’s clients”. These latter findings suggest a passive-reactive attitude regarding markets and customers, which seems to reinforce an inward, production-oriented posture. They emphasize their competitiveness in terms of “production technology”, “new product development” but also in terms of “production process”. At the same time they underscore “superior quality than competition” and the “uniqueness of their offering in terms of technology”. While standardizing communication, distribution and price strategy on foreign

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<sup>4</sup> We obtain significantly different means for *all* items used in the analysis.

<sup>5</sup> Multiple comparisons across all groups and all items yield 864 combinations.

markets they indicate all product policy components to be adapted (product features, product packaging, brand names and product design). These expressions of innovation and technology on one hand and the emphasis on production processes and product quality and features on the other might be indicative of two subgroups in this cluster, that point to an innovative/technology focused and to another core-manufacturing focused sub-cluster.

The firms' management competencies and skills support internationalization and its networking capability also score highest across clusters. Overall high scorings of this group of businesses indicate a very satisfying profile of strengths and competitiveness and a good basis to be exploited abroad.

Table 3: Characterizing items of the innovation/technology – product(ion) type of firms

| <i>Cluster 1 scores high on</i>          | <i>innovation/techn.<br/>-product(ion) type</i> | <i>Cluster 2</i> | <i>Cluster 4</i> | <i>Cluster 3</i> | <i>overall<br/>mean</i> |
|--|---|------------------|------------------|------------------|-------------------------|
| product/service quality                  | <b>4,66</b>                                     | 4,19**           | 3,99**           | 4,35**           | 4,25                    |
| the product/service is<br>seen as unique | <b>4,22</b>                                     | 3,91**           | 2,99**           | 3,43**           | 3,66                    |
| new product<br>development               | <b>4,2</b>                                      | 3,66**           | 3,08**           | 3,3**            | 3,58                    |
| production process                       | <b>4,04</b>                                     | 3,49**           | 2,95**           | 3,15**           | 3,43                    |
| production technology                    | <b>4,29</b>                                     | 3,36**           | 2,93**           | 2,83**           | 3,4                     |
| mo_internationalisation<br>of clients    | <b>3,83</b>                                     | 3**              | 2,78**           | 2,58**           | 3,09                    |
| closeness to int clients                 | <b>3,8</b>                                      | 2,97**           | 2,7**            | 2,6**            | 3,05                    |
| mo_closeness to int<br>clients           | <b>3,8</b>                                      | 2,97**           | 2,7**            | 2,6**            | 3,05                    |
| product is<br>technologically unique     | <b>3,66</b>                                     | 3,18**           | 2,5**            | 2,33**           | 3,02                    |
| mo_economies of scale                    | <b>3,75</b>                                     | 2,91**           | 2,65**           | 2,58**           | 3                       |
| networking                               | <b>3,61</b>                                     | 3,24**           | 2,21**           | 2,2**            | 2,93                    |
| mo_tax benefits                          | <b>3,35</b>                                     | 1,85**           | 1,93**           | 1,53**           | 2,18                    |

\*\* denotes significance at a 0,01 level for LSD tests

Extant literature describes the combination of innovation and production orientation as being incompatible and product(ion) related efficiency objectives as being detrimental to experimentation and innovation (e.g. Mavondo and Farrell, 2003; Noble *et al.*, 2002; Kotler, 2002). In our view instead, this evidence of complementary orientations (combination) might be indicative of the ambidextrous firm (March, 1991; Chang and Hughes, 2012) which successfully aligns processes of exploration i.e. search, variation, experimentation and discovery, and exploitation, which is associated with activities such as “refinement, efficiency, selection, and implementation (March, 1991, p. 102). In our context, innovation may well lead to improvements in efficiency, quality and competitive positioning.

#### *Cluster 2: The entrepreneurial/growth-oriented firms*

This cluster can be characterized as being the entrepreneurial type of firms that pursues international growth by adopting a niche strategy.

Businesses here score highest across clusters on almost all international performance and growth items such as “importance of total international performance”, “importance of reaching international sales targets”, “importance of international profitability”. Proactive motivations in terms of “managerial urge to go international” and “importance of international expansion” further underline their drive towards international expansion and the importance put on this growth strategy. Also, managerial commitment and competencies relevant to internationalization exhibit the highest value across all clusters. Management therefore is driving the firms’ international ambition and success.

Evidence for the niche strategy is given by the fact that the firms indicate to have “small but many target markets“, emphasize their global mindset, and underscore the “small size of their domestic market. In line with the niche strategy, they mention “their product/service to be perceived mainly specialized by clients” and, consistently with a global niche strategy, their



offering on foreign markets is standardized. The combination of an entrepreneurial posture and a niche strategy has been found also in extant literature, enabling and necessitating small firm internationalization in a large number of target markets (Hennart, 2014; Zucchella and Palamara, 2007; Calori *et al.*, 2000; Dalgic and Leeuw, 1994).

Table 4: Characterizing items for the entrepreneurial/growth type of firms

| <i>Cluster 2 scores high on</i>                 | <i>Entrepreneurial/<br/>growth type</i> | <i>cluster 4</i> | <i>innovation/<br/>techn.-<br/>product(ion)<br/>type</i> | <i>cluster 3</i> | <i>overall mean</i> |
|---|---|------------------|--|------------------|---------------------|
| importance of total international performance   | <b>4,39</b>                             | 3,1**            | 4,04**   | 3,93**           | 3,89                |
| imp of new market expansion                     | <b>4,32</b>                             | 3,15**           | 4,02*  | 3,93**           | 3,91                |
| importance of internat. perform of core product | <b>4,32</b>                             | 3,23**           | 4,07**   | 3,95**           | 3,91                |
| importance of reaching internat. sales targets  | <b>4,37</b>                             | 3,22**           | 4,13**   | 4,18             | 3,96                |
| importance of total increase in internat. sales | <b>4,37</b>                             | 3,23**           | 4,16**   | 4,25             | 3,97                |
| commitment to internationalisation              | <b>4,38</b>                             | 3,08**           | 3,98**   | 3,48**           | 3,84                |
| internat orientation of mgmt                    | <b>4,19</b>                             | 2,93**           | 3,85**   | 3,45**           | 3,68                |
| product is mostly specialized                   | <b>3,95</b>                             | 3,18**           | 3,82   | 3,63**           | 3,66                |
| small size of domestic market                   | <b>3,76</b>                             | 2,94**           | 3,5*   | 3,3*             | 3,43                |
| small markets but many target markets           | <b>3,33</b>                             | 2,71**           | 3,2  | 2,65**           | 3,08                |
| <i>Cluster 2 scores low on</i>                  |   |                  |  |                  |                     |
| s/a communication issues                        | <b>2,58</b>                             | 2,31**           | 3,54**   | 4,03**           | 2,82                |
| s/a communication channels                      | <b>2,72</b>                             | 2,29**           | 3,48**   | 4,2**            | 2,86                |
| s/a promo budget                                | <b>2,73</b>                             | 2,15**           | 3,66**   | 4,2**            | 2,87                |
| s/a product packaging                           | <b>2,58</b>                             | 2,66             | 3,55**   | 3,3**            | 2,87                |
| s/a distrib budget                              | <b>2,78</b>                             | 2,51**           | 3,8**  | 4,4**            | 3,12                |
| s/a distribution channels                       | <b>2,91</b>                             | 2,67*            | 3,79**   | 4,25**           | 3,12                |
| s/a special prices                              | <b>3,09</b>                             | 2,7**            | 3,67**   | 4,2**            | 3,18                |

\*denotes significance at a 0,05 level for LSD tests

\*\* denotes significance at a 0.01 level for LSD tests

*Cluster 3: the marketing/selling oriented group of businesses*

Cluster 3 firms could be described as marketers/sellers. It is the only cluster among the four groups that adapts marketing practice to foreign market needs. Their differentiating characteristics all regard adaptation of communication, distribution, and price strategy on foreign markets. At the same time, they exhibit low values on product-related items and advantages. While scoring at average level across importance given to international growth and performance, these businesses underline international growth of the core product in core markets, which could be indicative of a group of mature businesses that extend their life cycle via adaptation in foreign markets. Also, emphasis on sales related targets has been described as being expressive of a selling orientation.

Table 5: Characterizing items of the marketing/selling oriented type of businesses

| <i>Cluster 3 scores high on</i>                           | <i>marketing/<br/>selling type</i> | <i>entrepreneurial/<br/>growth type</i> | <i>Cluster 4</i> | <i>innovation/techn.-<br/>product(ion) type</i> | <i>overall<br/>mean</i> |
|---|------------------------------------|---|------------------|---|-------------------------|
| importance of total increase in int sales in core markets | <b>4,55</b>                        | 4,25**                                  | 3,09**           | 4,1**   | 3,92                    |
| s/a pricing strategy                                      | <b>4,35</b>                        | 3,45**                                  | 3,03**           | 3,88**  | 3,48                    |
| s/a payment conditions                                    | <b>4,38</b>                        | 3,27**                                  | 2,94**           | 3,97**  | 3,4                     |
| s/a physical distrib                                      | <b>4,6</b>                         | 3,01**                                  | 2,83**           | 3,86**  | 3,25                    |
| s/a special prices  | <b>4,2</b>                         | 3,09**                                  | 2,7**            | 3,67**  | 3,18                    |
| s/a distrib budget  | <b>4,4</b>                         | 2,78**                                  | 2,51**           | 3,8**   | 3,12                    |
| s/a distribution channels                                 | <b>4,25</b>                        | 2,91**                                  | 2,67**           | 3,79**  | 3,12                    |
| s/a promo target  | <b>4,2</b>                         | 2,76**                                  | 2,33**           | 3,84*   | 2,98                    |
| s/a promo budget  | <b>4,2</b>                         | 2,73**                                  | 2,15**           | 3,66**  | 2,87                    |
| s/a communication channels                                | <b>4,2</b>                         | 2,72**                                  | 2,29**           | 3,48**  | 2,86                    |
| s/a communication issues                                  | <b>4,03</b>                        | 2,58**                                  | 2,31**           | 3,54**  | 2,82**                  |
| <b>but low on</b>   |                                    |   |                  |   |                         |
| s/a product packaging                                     | <b>3,3</b>                         | 2,58**                                  | 2,66**           | 3,55*   | 2,87                    |
| s/a product features                                      | <b>3,25</b>                        | 2,95                                    | 2,69**           | 3,82**  | 3,09                    |
| s/a brand name  | <b>2,8</b>                         | 2,44                                    | 2,55             | 3,64**  | 2,77                    |
| s/a product design  | <b>2,98</b>                        | 2,72                                    | 2,65             | 3,84**  | 2,69                    |

\*denotes significance at a 0,05 level for LSD tests

\*\* denotes significance at a 0.01 level for LSD tests

*Cluster 4: the lack of strategic orientation – strategy type of firms*

Out of our 4 clusters, this group exhibits the lowest values – their single characterizing trait - across almost all items. Exceptions to this rule do not follow a clear pattern as they regard some product(ion) related issues (such as production technology, product packaging, brand name), some communication related issues (such as advertising, alternative forms of sales promotion) or competitiveness in terms of tenders. These businesses thus are without any discriminating features and they indicate heavy disadvantages in terms of competitiveness. Also managerial competences are ranked extremely low and seem to further limit international positioning and expansion. Firms in this cluster do not seem to possess any strategic orientation and competitive advantage. Therefore, not surprisingly, these firms are pushed to internationalization (as they indicate competitive pressure on home markets) and they suffer from competition on foreign markets.

We had hypothesized above that distinct strategic types are related to differences in internationalisation patterns and performance. Table 6 reports firm demographics and internationalisation characteristics which will be linked to our strategic typology and used for validation purposes (Ketchen and Shook, 1996, Punj and Stewart, 1983). Following this approach we will discuss the four strategic types with regard to international performance (export intensity and growth) and scope of international activities.

Table 6: Clusters demographic and internationalisation characteristics

|  | innovation/techn.-<br>product(ion) type | entrepreneurial/<br>growth type | marketing/ selling<br>type | lack of orientation-<br>strategy type | Anova F                          |
|--|---|---------------------------------|----------------------------|---------------------------------------|----------------------------------|
| number of firms  | 128 (22,2 %)                            | 233 (40,5 %)                    | 40 (6,9 %)                 | 175 (30,4 %)                          |                                  |
| origin of firms %  |   |                                 |                            |                                       | 18,453**                         |
| <i>Italian</i>   | 13                                      | 40                              | 8                          | 39                                    |                                  |
| <i>Finnish</i>   | 9                                       | 65                              | 7                          | 19                                    |                                  |
| <i>Greek</i>   | 39                                      | 20                              | 6                          | 35                                    |                                  |
| firm age (average<br>years)                              | 26                                      | 27                              | 27                         | 30                                    | 1,565                            |
| firm size  |   |                                 |                            |                                       |                                  |
| average n° of<br>employees 2000-<br>2005                 | 48-52                                   | 59-63                           | 42-45                      | 42-44                                 | 3,513*<br>4,258**                |
| average n° of<br>employees abroad<br>2000-2005           | 4-5                                     | 3,7-4,5                         | 1,6-1,8                    | 1-1                                   | 1,526<br>1,922                   |
| B 2 B <sup>1</sup>                                       | 70                                      | 82                              | 87                         | 80                                    | 3,219*                           |
| B 2 C <sup>1</sup>                                       | 30                                      | 18                              | 26                         | 20                                    | 2,234                            |
| Time to 1st-2nd-3rd<br>market (average<br>years)         | 11-2-1,5                                | 9-1,9-1,7                       | 13,8-2,6-2,5               | 13-2,3-1,8                            | 2,102<br>0,566<br>0,939          |
| % foreign sales/total<br>sales (2000-2005-<br>2008exp)   | 33-42-49                                | 46-54-60                        | 32-34-40                   | 25-29-34                              | 15,637**<br>24,830**<br>26,466** |
| average n° of foreign<br>markets (2000-2005-<br>2008exp) | 7-11-13                                 | 14-18-20                        | 6-9-10                     | 6-8-11                                | 14,201**<br>18,173**<br>16,899** |

1 multiple answers possible

\* denotes significance at a 0,05 level;

\*\* denotes significance at a 0,01 level

In general, export intensities as reported in table 6 show that internationalisation represents a growth opportunity for all firms, in line with our sample of international SMEs. However, cluster results highlight important differences in conceiving and exploiting internationalisation as a growth strategy.

In the *entrepreneurial/growth oriented cluster* a proactive attitude combines with managerial competence in general and an extreme attention to all performance and growth items which are intrinsically entrepreneurial (Sexton and Bowman-Upton, 1996). This group of businesses has been further characterized by pursuing a niche strategy. International performance data confirms this combination a wise strategy for small firms (Hennart, 2014; Zucchella and Palamara, 2007; Calori *et al.*, 2000; Dalgic and Leeuw, 1994): this group of businesses clearly distances its counterparts in terms of foreign sales and its growth. In line with its niche strategy the number of countries the firms are active in is double the scope of the marketer/seller cluster and the firms that lack orientation and strategy. These findings are in line with the INV stream of research which finds entrepreneurial posture and growth orientation a key determinant of fast and intensive firm internationalization (e.g. Hagen and Zucchella, 2014; McDougall and Oviatt, 2000). Firms here are proactive advantage-seekers who design and employ strategies suitable to reach international growth quickly and broadly without overstretching the small firms resources.

Also the *innovation/technology-product(ion) cluster* is performing extremely well abroad. This group of firms, being able to meet competing demands for innovation and efficiency, develops its foreign sales in a consistent manner. Similarly to the first cluster, in these firms managerial competence and a clear strategic attitude translate into fast and intense internationalisation. Again, as is the case in the entrepreneurial/growth oriented cluster, these firms express superior internal capabilities and key assets (e.g. Calori *et al.*, 2000; Bell *et al.*, 2004; Knight, 2001) which in turn foster internationalization. The findings echo extant literature which describes innovation as being beneficial to rapid and intensive international expansion of the small firm (e.g. Knight and Cavusgil, 2004). Of note, these firms are also intensive networkers who seem to successfully develop/add their network's resources to the contemporaneous pursuit of innovation and internationalization.

The *marketing/selling type of firms* is by far the smallest cluster. Businesses in this group have found a valid option in realizing satisfactory international results as is reported in table 6. However, their growth in foreign sales lags behind the former two clusters: while they reported an export intensity comparable to the innovation cluster, these firms grew less over the period of investigation and they serve a comparably smaller number of foreign markets. Given their strategic profile, this pattern does not come as a surprise. It is comparable to international operations reported in multi-domestic industries where adaptation to markets and resource commitment for adaptation and market penetration induce less intensive international development. The fact that the firms in this group indicate adaptation of all marketing activities except product- and product-related adaptation is indicative for the search for the least necessary (and resource-consuming) adaptation – and strategic thinking. It follows that for these firms market selection is a crucial decision which must take cultural and institutional differences and market potential into account. Again, in the light of their growing export intensity, our firms seem to master this decision and to be able to develop and penetrate their core foreign markets.

The internally inconsistent cluster, the *lack of strategy* group, is the worst performing group of businesses. It struggles most to expand its geographic scope but still shows a rather reasonable development abroad. This group of businesses may be torn between the defence of the home market and the strategic pursuit of internationalization. These firms had indicated competitive pressure on the domestic market as a main motivation to go abroad and they exhibited relatively low commitment/importance to internationalization. Taken together, these firms will need to commit to internationalization and act upon their strategic profile in order to achieve consistent performance abroad.

Regarding the time to the first foreign markets we do not find significant differences between the strategic types (please see table 6). The relatively long time to international entry

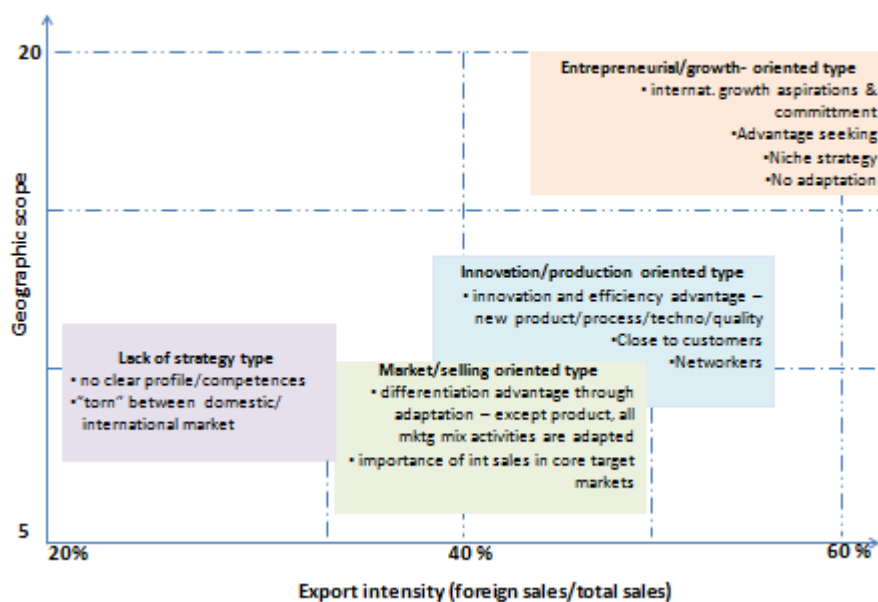
corresponds to the process view of internationalization (Johanson and Vahlne, 1977) where firms are expected to develop first on their home markets before embarking on internationalization. Although the timing regarding the first markets suggests that the small firm in general may need to learn first at home, act in accordance with scarce/develop strategically a bundle of resources and competences, the variations in terms of market expansion and export intensity clearly speak to the influence of strategic types over the longer term. Following this line of thought we may also conclude that only those firms which strategically act upon internationalization are also able to exploit its opportunities to the full, unlocking a virtuous circle in terms of more intensive and faster expansion abroad. Importantly, performance and growth abroad seems to be beneficial to overall firm performance and growth, as the significant differences in firm size (number of employees) suggests.

The firms' country origin is relatively evenly distributed in three of the clusters, while Greek firms are significantly overrepresented in the innovation-production cluster. At a first glance this distribution is at odds with Finland being at the top of the world in terms of R&D expenditure (% of GDP, World Bank, 2014) and with Greece's low rankings in R&D expenditure, in firm's capacity to innovate and in generating trademarks and patents (Lioukas, 2009). One explanation is the fact that innovation is not limited to technology sectors and to high tech innovation. In fact, we use outcome measures of innovation such as "uniqueness", "new product", "new process" as compared to competition which are independent from industry affiliation. While Greek firms are scoring low in R&D expenditures or patents, they are performing well in terms of marketing- and organizational- innovation (European Commission, 2010) as well as in the adoption and diffusion of new products, technologies and methods (Lioukas, 2009). Given our nation-wise balanced industries, with Italy and Greece skewed towards traditional industries, "innovation" in our study could be more strongly

linked to low-tech or incremental innovations. Even more so, in the case of Greece there is evidence suggesting that there are significant “pockets of innovativeness” in both traditional (Dimitratos *et al.*, 2003; Voudouris *et al.*, 2000) and high-tech sectors (Gabrielsson *et al.*, 2008), so this is likely to be a legitimate explanation for the Greek internationalised sample.

Figure 2 summarizes the key characteristics of the strategic types and their position with regard to intensity of internationalization and their international reach.

Figure 2: A summary of characteristics and internationalization positions of strategic types



In summary, we identify a bundle of firm characteristics which tend to fall into coherent patterns and thus account for the firms’ strategic configurations, i.e. strategic types. In turn, aspects of firm internationalization are related to these four idiosyncratic profiles. While three strategic types present viable options to competing abroad, the entrepreneurial/growth oriented cluster outperforms its counterparts in the international arena and the “lack of strategy” group is underperforming. We therefore conclude that it is the internal fit of resources and competences which accounts for performance abroad. At the same time we find



that this international success also hinges on the strategic type *per se* and thus do not confirm the equifinality assumption as indicated by Miles and Snow (1978) and others. From an institutional or cross-country perspective we conclude that the adoption of a particular configuration results from the firms' characteristics and the strategic choice made by the SME rather than being the result of its business environment.

## **6. Conclusions, limitations and future research**

We departed from the idea of the configurational approach (as opposed to the universalistic approach) and classified firms according to shared, recurrent patterns of firm strategic characteristics. In the SME context, little theoretical and empirical evidence is available regarding such *differentiated strategic types*, and even less so in an international setting. International SMEs are an important but understudied group of organizations in all European economies.

A cluster analysis, an explorative approach that facilitates structure-discovering analysis of data, was employed on a sample of 576 international SMEs from Italy, Finland, and Greece. We consider this set of countries with its complementary characteristics, e.g. highly developed/poorly developed institutional environment, small/large domestic markets, central/peripheral geographic positions, suitable to the study of a European strategic typology and representative for a wide range of European (and non-European) economies. Following our conceptual framework, the cluster procedure was run with the dimensions of strategic orientation, generic/functional strategy and competitive advantage.

Empirical findings show four distinct strategic types, i.e. the innovation/technology-product(ion) cluster, the entrepreneurial/growth oriented group, the marketing/selling type of firms and businesses that lack any kind of strategic posture. We thus observe three distinct groups of small and medium firms (and a large majority) with a clear strategic posture which adopt strategies and policies coherent with their vision and orientation, confirming the view

that international SMEs *do* act strategically in order to compete and grow in the international arena. Consistent with extant knowledge and our international setting, the two largest groups constitute the two ends of an internationalization continuum – the entrepreneurial growth oriented group and the cluster of businesses which lack orientation, strategy and commitment to internationalization. Between these two extremes on the internationalization continuum, we identify an innovation/product(ion) oriented cluster, focused on core manufacturing and innovation, and a marketing/selling oriented cluster, leveraging on functional strategy (notably price, promotion and distribution) and on its adaptation to foreign markets conditions. Although at different levels, the three groups of businesses which act strategically, realize consistent growth in foreign sales and expansion in geographical scope, while the firms that lack strategic orientation lag behind regarding international performance indicators.

Strategic profiles allow the identification of relative strengths and weaknesses of the approach followed by the firms. As such the strategic types also might be used for explanation and prediction of differentiated internationalization behaviour and internationalization outcomes for different groups of firms. Our taxonomy therefore is of interest not only to scholars, it is of relevance for managers and/entrepreneurs as well. Given the increasing complexity of the international business environment, it is crucial to understand better the strategic orientations, strategies and competitive advantages needed to compete in such a environment. Our typology permits the manager/entrepreneur to position their firm in one of the strategic groups and to compare the firm's orientation and behaviour with other types, to evaluate areas that need to be acted upon and identify routes for improvement. The decision on whether and how to change and the respective consequences must be related to the firm's existing characteristics and competences, especially in the small firm which is called to grow internationally. Developing in a strategic and coherent manner with regard to orientation,

strategy and competitive advantage (and ultimately markets) thus is a key success factor for these firms. A strategic configuration, i.e. combinations of firm elements that determine international performance, therefore may be of more value than the identification of single determinants of international performance.

Our findings are of value to policy makers as well. With a view to internationalization, our strategic types show that a generic approach to public interventions is not suitable. At the same time they permit to formulate more precise strategic targets and modulate respective programs, by taking into account the different types identified in our study.

Although we acknowledge that the country of origin of the firm or, more generally, the external environment of the firms needs future research attention, we believe that the variety and complementarity of the three countries included in our study allow us to conclude that the strategic types are the result of firm internal characteristics and deliberate strategic choices, much more than being the result of contextual influences.

To summarize, with our study we build support for the configurational approach and through the association with international performance dimensions we validate an international SME typology which we hope is of value to practitioners and policy makers alike.

We also contribute to emerging research on the interaction of strategic orientations (e.g. Berthon, Hulbert and Pitt, 2004; Paladino, 2009; Hakala and Kohtamaki, 2011; Hagen *et al.*, 2012) and the related field of organizational ambidexterity. In terms of strategic orientations, our results support the alternative more than the interactive stance – only one of our strategic types exhibits elements of two orientations. It follows that a balance or ambidexterity is difficult to achieve, a finding which opens interesting questions for future research. Should/how can SMEs develop or maintain such ambidexterity which has been described as being beneficial to performance? Which orientations are complementary and synergetic and which combinations are not? Of note, our ambidextrous strategic type combines a priori

incompatible orientations and it is a high- but not an outperformer in terms of internationalization. Another, related, field of future inquiry regards the sequential view of firm orientations and strategic types (Hakala, 2011). Due to the static nature of our data we cannot track the evolution from one type to another, along the life cycle of the firm. Future research might also try to relate the evolution of strategic types to changes in the external environment and adopt a viable system approach which accounts for dynamic relationships (Barile and Polese, 2010; Golinelli, 2010). Another interesting and important possibility to continue/expand the study is to systematically test for contextual contingencies and to cover additional similar or very different countries to validate our typology and study institutional environments in depth.

Our taxonomy offers a simplified but rich description of the reality of international SMEs, helpful to classify firms, to understand their international behaviour and to predict their internationalisation outcomes. In this sense, our strategic types represent a “toolbox” of the small international firm to achieve internationalization outcomes which is, as we hope, of use to managerial and policy decision making in ever more complex business environments.

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## Appendix:

Table I: Operationalizations of business and marketing strategy adaptation/standardization

### *Strategy operationalization (based on Knight, 1997)*

Estimate how well the following statements are describing your company (from 1 describes very poorly to 5 describes very well)

- a) Our product is serving a specialized need that is not easily satisfied with competitors' products
- b) The markets of our products are small in each country, but there are a lot of target countries
- c) Our customers are thinking of our product more as a specialized product than as a standard product.
- d) Our customers consider our product to be of higher quality than our competitors product
- e) Our product is unique in terms of technology

### *Marketing strategy operationalization (based on earlier versions of Lages et al., 2008)*

Are the following marketing-mix factors in your **most important export countries** standardized in all countries, or adapted on the basis of local culture and/or other local features in each country? Please indicate the situation in 2005 (from 1 fully adapted to 5 fully standardized)

|                          |    |   |
|--------------------------|----|---|
| Product/service strategy | a) | label/brand   |
|                          | b) | product design                                      |
|                          | c) | changes in product line from one country to another |
|                          | d) | product packaging                                   |
| Pricing strategy         | e) | pricing policy                                      |
|                          | f) | payment terms                                       |
|                          | g) | discounts   |
|                          | h) | target profit                                       |
| Communication strategy   | i) | theme of advertising                                |
|                          | j) | advertising channels                                |
|                          | k) | promotion budget                                    |
|                          | l) | promotion targets                                   |
| Distribution strategy    | m) | transportation strategies (logistics)               |
|                          | n) | distribution budget                                 |
|                          | o) | distribution channels                               |

Table II: Operationalization of motivations for internationalization (based on Moen, 1999)

Please indicate how important the following factors have been to internationalizing your company (from 1 not important at all to 5 very important)

- |   |   |
|---|---|
| a) Growth and profit goals of company                     | b) Managerial urge for internationalization       |
| c) International experience of managers                   | d) Success of competitors in foreign markets      |
| e) Internationalization of the customer                   | f) Unique product/service                         |
| g) Economies of scale                                     | h) Tax benefits                                   |
| i) Competitive pressure in domestic markets               | j) Company has never considered Italy as its only |
| market  | k) Small size of domestic market                  |
| l) Overproduction and /or excess capacity of your company | m) Unsolicited foreign order                      |
| n) Proximity to customers                                 |   |

Table III: Extreme response patterns (post hoc comparisons of country differences)

|   |         | Greece-Finland | Greece-Italy | Finland-Italy |
|---|---------|----------------|--------------|---------------|
| Overall response patterns (all items)                       | low     | ns             | *            | *             |
|   | central | ns             | ns           | *             |
|   | high    | ns             | ns           | ns            |
| <b>Questionnaire sections</b>                               |         |                |              |               |
| Motivations for internationalization                        | low     | *              | *            | *             |
|   | central | ns             | ns           | ns            |
| Strategy  | low     | *              | ns           | *             |
|   | central | ns             | ns           | ns            |
| Competitiveness/comp advantage                              | low     | *              | ns           | *             |
|   | central | *              | ns           | *             |
| Management characteristics                                  | low     | *              | *            | ns            |
|   | central | *              | *            | ns            |
| Marketing strategy (standardization/adaptation)             | low     | ns             | *            | *             |
|   | central | *              | *            | *             |
| Importance given to various internationalization objectives | low     | *              | ns           | ns            |
|   | central | *              | ns           | *             |

\* Denotes significance at a 0,05 level

Figure B: Response patterns across Italy, Finland and Greece (relative frequency/item)

