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### **Introduction**

Most of the scholarly articles on global strategies are relevant to the large corporation, but not to the small business. In this article the authors take a new approach by contrasting global strategies for the large vs. small business, with practical strategies for the small business person interested in taking his or her firm global.

### **Why Businesses Must Go Global**

Peter Drucker [4, p.50] was asked, "Apart from the heads of big multinationals, how much should the average CEO worry about the global company?" Isn't the domestic market still most companies' bread and butter?" His response was "The other day, I read a nice quote by a distinguished economist who said that in five years there will be only two kinds of economists — those who think in terms of a world economy and those who are unemployed. The same is true of CEOs, even of small companies. If you don't think globally, you deserve to be unemployed and you will be." Up until the mid-'30s there were practically no national companies except very large ones. But suddenly, an adhesive manufacturer in New England found that he had competition from an adhesive manufacturer in California. The same was true in many industries. A good many companies that did not understand what was happening went under. Even the small ones had to learn to think nationally.

Small, midsize, and large companies must all go global. However, it is actually easier for midsize and small companies to operate without much regard for national boundaries than large firms. Most large multinationals do not have global cultures; it is generally easier for the young midsize and small companies to change cultures. And small companies can usually change faster than large companies. Small companies are barely visible politically.

According to Drucker [4] the most successful global companies are small specialists; they are niche players with one product or product line. A good example is Service Master, a Chicago company specializing in maintenance and consumer service products. It is

increasing its number of contracts in Japan and the United Kingdom, as well as the United States. Service Master and many other midsize and small companies in manufacturing, banking, insurance and building contractors are expanding throughout the globe.

### **Domestic Companies**

Even companies that are purely domestic must at least think globally and act locally. Managers must realize that what happens in other countries affects their business either directly or indirectly. Managers must understand how world events, like foreign-exchange rates, affect their businesses and know how to deal with these changes. All companies must keep the global competitors from gaining advantage in their home country to keep from being forced out of business.

### **Large vs. Small Global Business Strategies**

In this section six critical areas for global success are presented, contrasting the large vs. small business applications. There are six critical areas for success: global management team, global strategy, global operations, global technology and R&D, global financing and global marketing.

#### **Global Management Team**

Large successful global corporations strive to have top-level executives from around the world provide a world view. Multinational companies realize that it is important to have managers from the home country who are familiar with its business practices, customs, and etiquette. Trying to impose American ideas abroad, without modification, can ultimately lead to failure. However, the small firms often do not have, and cannot afford to hire, foreign managers.

In place of foreign managers small businesses can use the services of consultants and agents. Consultants can be American or foreign. A United States consulting firm with offices in the Soviet Union has encouraged a number of Mid-Hudson Valley companies in New York State to export products to the Soviet Union. The help of a consultant is needed by these small firms who are not familiar with the complicated language, tariffs, and exchange barriers of the Soviet Union. According to Lee [12], who has sold to different cultures for over 15 years without specialized staff, effective decisions can be made from the domestic office with only the aid of agents. Lee states that it is not difficult to find SIC codes, regulations, specifications, and overall cultural acceptance for one's products through reliable agents. Picking the correct agent is crucial for global relations. Lee makes decisions based on foreign agents' information from environmental scanning to market trends.

Successful globalization begins at the top. The CEO must be strongly committed to taking the firm global. Part of this commitment involves learning about foreign business diplomacy. To operate globally a company must understand its foreign customers. To this end, there are available various publications, seminars and agencies. A few sources of informations on training include the Business Council for International Understanding at the American University; the David Kennedy Center for International Studies at Brigham

Young University; Going International Inc. of San Francisco, the American Management Association of New York, and the International Society for Intercultural Education Training and Research in Washington, D.C.

Many successful multinationals believe that top managers cannot understand other cultures unless they spend some time in those countries on a regular basis. An American will have limited ability in designing products, such as furniture, that will be sold in Europe and Japan if s/he has never been in Japanese homes. The cost of extensive travel may be a negligible part of what is spent on advertising and other expenses.

### **Global Strategy**

There are three major strategies for going global:

- Direct Investment
- Contractual Agreement
- Exporting

Direct investment is often the choice of large global multinational corporations. Multinationals establish their own businesses or may buy existing foreign companies through acquisitions and mergers. However, most small businesses find it difficult to finance such deals through direct investment. Exporting and contractual agreement are often more appropriate for the small business.

Contractual agreements include a variety of business deals, a few of which include licensing, contracting, swapping of new products and models, supply agreements, cooperative R&D, and joint ventures. Many large multinational corporations have also developed many of these contract agreements, particularly joint ventures.

The joint venture is a viable alternative to wholly-owned subsidiaries in foreign countries for the small business. Joint ventures usually require a direct investment, and result in a loss of control. However, they are less risky in determining the ability to penetrate unfamiliar markets. Joint ventures help reduce the difficulties resulting from differences in taste, shopping habits, and business conditions. Joint ventures also enable the American firm to work with a company overseas which is already familiar with the language and culture, and has an established clientele.

Exporting comprises a major part of how small businesses obtain global stature. Exporting is considered the minimum financial risk approach. The firm finds one or more buyers in one or more foreign countries for its product or service. Mockler [14] recommends exporting when the sales potential for the target market is high, the estimated production costs are lower at home, product adaptability requirements are not needed or are simple, import and export restrictions are favorable, raw materials are less costly, the political climate abroad is relatively unstable, and the firm has limited financial resources.

The small firm can use a combination of strategies. For example, Overseas Corporation of Birmingham, Alabama, specializes in solid waste handling systems. Overseas offers its customers and partners three choices: 1. It will act as a true exporter by selling a complete solid-waste unit. 2. Overseas will sell technical components that can be assembled and integrated locally. 3. It offers licensing agreements, and it will supervise the construction of the waste system.

### **Global Operations and Products**

Many of the major multinational corporations have operating facilities in all the major countries with which they do business, or are moving in that direction. For the small firm this is not possible. However, the small firm could work to develop joint ventures in more countries as part of its global strategy.

Major multinationals strive to develop global operations in order to be viewed as "good citizens" who provide jobs to local workers. Local production offers protection from import quotas and tariffs. Small companies are not at such a large risk because they are barely visible politically. They can also create market niches to deflate a certain amount of protectionism.

Major multinational corporations are also striving to develop global products that require little adaptation to local markets. Small firms can also standardize their products. Standardized global products can be an area that becomes a differential advantage for the small business niche player. Small companies can usually change faster than large companies. While the multinational wants to view the customers from different countries as being the same, the small firm can cater to cultural differences such as aesthetic sensibilities, languages, electrical currents, and weights and measures. The small firm can capitalize on flexibility to meet unique needs that the large firms overlook. Products that offer reliability and quality, delivered promptly, are of paramount importance to foreign customers.

The small firm can also work towards standardization of unique products. For example, Econocorp, was founded by Dick Lee as a manufacturer of packaging machines to fit special production needs. When Econocorp went global, Lee turned from an engineering service to a product oriented company, with greater concern for marketing of the product. Econocorp is currently producing all new machine designs with metric measurements and converting all old designs to metric as well. Lee is targeting a centralized product design for special production needs, in preparation for Europe 1992. Lee's top concern with his overseas products are quality and delivery dates. He attributes expansion of sales and networking to product quality.

### **Global Technology and R&D**

Less than 50 percent of the world's technological innovations can legitimately lay claim to the "made in American" slogan, down from 80 percent in the 1950's. Large multinationals search the world for the latest and best technology. They do not adhere to the not-invented-here mentality. Multinationals tend to have large budgets for technology and R&D. They search the globe for low-cost sites for R&D. Some countries including Israel, Ireland, and Canada offer attractive government R&D subsidies and ample, well trained English-speaking researchers. Other countries offer more attractive wage-rates. India is making a concerted effort to market its software-developed capabilities to firms worldwide. These types of sites may be found by contacting the foreign commerce departments.

The small firms tend to have small, or no, budgets for R&D. With limited research capability it is important to scan the globe for the latest technology, and to be able to operationalize it quickly. Small American firms can choose to copy the latest technology, rather than develop it.

### **Global Finance**

Large multinationals search the world markets to get the best rates and terms for long-term financing. Generally, small firms will not be able to borrow from one foreign country and invest it in another.

American businesses looking for United States loans to go global should consider the Export-Import Bank of the United States Eximbank is the government agency responsible for aiding the export of United States goods and services through a variety of loan guarantees and insurance programs. To encourage small businesses to sell overseas, Eximbank maintains a special office to provide information on the availability and use of export credit, insurance, guarantees, direct and intermediary loans extended to finance the sale of United States goods and services abroad. The bank offers briefing programs available to the small business community. The program includes group briefing and individual discussions held both within the bank and around the country.

However, before selecting a foreign country to do business in, financing should be considered. Small firms may be able to get loans in Taiwan and Japan at about one half the United States rates. With the tight money situation in America, it may be easier to get a loan in foreign countries.

### **Global Marketing**

The large multinational corporations have the resources to perform all marketing functions on a global basis. For the small business this is not always possible. There are several sources the small business firm can turn to for help to find market niches for the same products and services it offers in the United States:

Export-management companies (EMCs) are United States based companies that specialize by product group or country. For the American firm which does not have the time to do international marketing, the EMC will do just about everything from locating markets and distributors to getting products through foreign government approval processes.

Agents provide various services including:

- market investigation and strategic location recommendations.
- technology support.
- operations development.
- strategic alliances.
- administration - from employee travel to interviewing.
- sales and marketing forces.
- product or service representatives.
- business planning.
- sales consulting and identification of appropriate trade shows.

Agent/Distributor Services (ADS) are currently used by small multinational companies [6]. ADS was established by the Department of Commerce to aid United States firms in locating overseas sales representatives. This agency will locate, screen, and help evaluate agents, distributors, representatives and other foreign partners for American businesses. This service has advantages for the company with limited financial and manpower resources. In addition, business people in other countries are more comfortable dealing with a company introduced to them by the government.

Once a group of candidates has been found, companies using this service are required to travel to the foreign nation to review and interview these applicants and make selections. After the selection has been made, training begins. The agents learn about the company products and support services. Before the company representatives leave the country, a reception is held by ADS to announce the selections. The announcement will be a form of publicity that may start inquiries about the product and company. Although ADS does not guarantee finding successful agents in other countries, it does provide indirect advertising. Foreign business becomes aware of the product or service and may contact the company at a future date.

The use of ADS has been complimented as the most useful mechanism to screen out the best qualified agents, it saves a company time, money, and effort. Pan-Data Systems used ADS as a primary step in going global and found it advantageous. It plans to use ADS to expand to three other countries. Clifton and Leon Brown, export agents, used ADS. Subsequently they discovered that three companies in Italy are interested in their products.

Trade shows are also an effective way of networking. These trade shows contain top product offerings within an industry from around the world. Potential buyers come to see the products. Sales transactions and future sales meetings take place at these trade shows.

Networking is important in foreign sales. One method of networking is to become a member of a local trade center. The world trade center network is a computerized trading and communications data base linked to more than 100 trade centers and their subscribing companies worldwide.

Advertising in industry publications may also lead to global business transactions.

### **Developing The Global Strategy**

Becoming a successful small global business depends upon the determination and commitment of the entire organization. Management must be committed to devoting time for planning and implementation. Preparation often takes six to eight months.

After the commitment to expand globally has been made, top management should develop a master strategy. The strategies should be reviewed in the six critical areas for success. The starting place is the analysis of the firm's capabilities. Does the firm have the products and/or services with the potential to go global? If yes, which foreign market(s) will be targeted for penetration? Which global strategy (direct investment, contractual agreements, exporting, or a combination) is most appropriate for the firm? Next, the market entry strategy should be developed along with appropriate export and transaction procedures.

### **Sources Of Assistance**

When a small business develops a global strategy, export-management companies and/or Agent/Distributor Services can be very helpful sources of assistance. Another source is The Small Business Administration, which provides free export counseling via the Service

Corps of Retired Executives of Active Corps of Executives.

### **Obstacles**

Small businesses face many obstacles in developing a global strategy. A small business subcommittee on Export, Tax Policy and Special Problems held an oversight hearing last year. Different small business people and federal agency representatives testified by identifying several major barriers to the house subcommittee. Some of the most common obstacles were: lack of information available for small businesses capable of exporting, a shortage of marketing export information, a high "hassle-factor" that discourages exports, insufficient financing options, and intense foreign competition. Additional problems identified were lack of tax incentives and the language barriers.

Assistance is available to help overcome these obstacles. There are an estimated 2000 export services available to small business owners. Additionally, a nationwide support network has sprung up to offer assistance to U.S. exporters. It supplements the activities of the International Trade Administration (ITA) of the U.S. Department of Commerce and other federal agencies. State Governments have also moved decisively into export promotion, so have local chambers of commerce, port authorities, universities, district export councils, world trade clubs, and various other organizations.

To reiterate, the most successful global companies are small specialists — the niche players with one product, or product line. Effective decisions can be made domestically if the critical success strategies are implemented. The authors have presented the strategies employed by successful global companies; however, the firm must tailor strategies to its specific needs and timing. Blind imitation and wholesale adoption of other company methods may end in failure. Small business must learn from others, but build their own program for success.

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