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DEVELOPING INTANGIBLE RESOURCES: THE NEW BATTLEGROUND FOR EXPORT SUCCESS AMONG SMALL- AND MEDIUM-SIZED FIRMS

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EXECUTIVE SUMMARY

Existing models of internationalization have failed to address adequately the important question of why some firms succeed in exporting while others fail. Using interviews with twenty-five export managers and fourteen industry experts associated with the forest products industry, this research develops a resource-based model that examines the impact of the firm's intangible resources on export performance. In developing the model, we studied the U.S. wood products industry, a domestically-focused, commodity-oriented industry in which exporting has been the almost exclusive entry mode for small- and medium-sized firms entering foreign markets.

Many researchers have hypothesized that a firm's tangible resources are the primary determinant of export performance. However, tangible resources such as raw material supplies, financial assets, manufacturing facilities and sophisticated technology do not guarantee export success although they can provide a firm with a competitive advantage over their competitors. Rather, there appears to be some evidence that intangible resources may play a key role in the export performance of the firm. Intangible resources might be described as those resources within the firm that are difficult to quantify. For example, managerial innovativeness, managerial attitudes towards risk, managerial commitment to exporting and the firm's reputation all represent intangible resources. The preceding

examples highlight an interesting factor of intangible resources. That is, intangible resources are very often related to the quality of the human resources employed by the firm.

What differentiates this research effort from previous work in this area is that firm size was not found to be directly correlated with export performance. While size may provide a firm with a comparative advantage in tangible resources and a competitive advantage in the domestic marketplace, these advantages do not necessarily translate over to foreign markets. In fact, the increased bureaucracy and conservative management practices associated with larger firms may adversely impact the export performance of those firms. In contrast, this research has indicated that the specific competitive advantages associated with successful exporters were related to the development of intangible resources within the firm that are independent of firm size. The intangible resources that appear to be most important in contributing to export performance are managerial innovativeness, managerial commitment to exporting, the ability to manufacture high quality products, and knowledge of foreign markets).

TABLE OF CONTENTS

Introduction	01
The Export Performance Literature	04
Research Methodology.....	07
Results.....	15
Does firm size matter?	15
Does management matter?	16
Managerial innovativeness.....	17
Managerial commitment.....	19
Does knowledge matter?	22
Does quality matter?	26
Toward a Resource-Based Model of Exporting.....	27
Implications for the U.S. Wood Products Industry	30
Discussion	32
Implications for Managers in Other U.S. Industries	32
Implications for U.S. Public Policy Makers	33
Limitations of the Study and Future Research	33
Bibliography.....	35

INTRODUCTION

The past two decades have witnessed substantial advances in the field of international management in response to increased international competition (Ricks, Toyne, and Martinez 1990). As the international management field matured and large firms gained more experience in international markets, researchers have increasingly turned to the global strategies of multinational enterprises (MNE's) (Bartlett and Ghoshal 1989; Buckley and Casson 1976; Caves 1982; Hennart 1982; Kogut 1989; Porter 1990, 1986; Prahalad and Doz 1987; Rugman 1982). Paradoxically, despite the increased interest in global strategies, research in exporting (the basic mode of entering a foreign market) has declined by comparison (Johanson 1987, p. xvi).

For many firms, including most small and medium-sized firms, exporting remains the most viable mode of foreign entry (Beamish 1990; Bilkey 1978; Root 1987). Compared with licensing, foreign investment, or offshore production, exporting represents a less risky form of international business involvement and requires fewer resources, thus representing an attractive option for companies, especially those that are small and medium-sized, to expand abroad. However, most companies, principally small¹ firms, tend to view exporting as a high-risk endeavor (Fumo 1993; Root 1987). A traditional focus upon their domestic markets, combined with unfamiliarity about foreign markets, leads firms to concentrate on the domestic market and, by default, ignore opportunities abroad. Given the increased levels of global competition and the importance of exporting to a balanced U.S. economy, lowering barriers to exporting seems to be of paramount

¹For the sake of simplicity, we use the term "small firms" throughout the text to represent a longer but perhaps more accurate term "small and medium-sized firms," as opposed to the term "large firms."

importance. The more we know about why some firms succeed in exporting while others fail, the greater the likelihood that increased benefits will accrue to both current and future exporters.

Despite several decades of research on this topic by international management scholars, few definitive guidelines exist, and "there is no clear-cut formula for developing a successful export program" (Aaby and Slater 1989, p. 21). Given this lack of progress, some marketing scholars have recently called upon strategy researchers to join them in developing a "strategic export model" (Aaby and Slater 1989, p. 7; Kamath, Rosson, Patton, and Brooks 1987, p. 411).

This monograph represents a response by a team of strategic management and marketing researchers to increase our understanding of the important question of export performance. Employing a grounded theory development methodology (Glaser and Strauss 1967; Strauss 1987), this paper develops a model of export performance that differs from existing models in four ways. First, by focusing on a domestically-focused, commodity-oriented industry, the model addresses the need to customize products for export markets. Second, the model represents a theoretically grounded resource-based approach to analyzing export performance. Third, the model investigates the influence of firm size on firm performance. Finally, the model distinguishes between tangible and intangible resources, hypothesizing that intangible resources are more important to export success. In developing this model, we studied the U.S. wood products industry, a domestically-focused, commodity-oriented industry in which exporting has been the almost exclusive mode employed for entering foreign markets. The traditional focus of forest products manufacturers upon the domestic market

is a reflection of the inherent differences that exist between servicing domestic customers and servicing foreign customers.

The U.S. market for forest products is extremely price sensitive and less concerned about product quality, given the fact that most forest products are commodities. Historically, forest products in the U.S. have been distributed by agents and wholesalers, who constantly shift their attention from market to market in an effort to maximize their profits. As a result, forest products manufacturers have rarely established direct contact with retailers and end-users of their products, a practice which has precluded the establishment of long-term business relationships for most producers.

In contrast, foreign customers are extremely interested in establishing long-term business relationships, particularly in Europe and Japan. The decision to import a product is based on more considerations than just price and availability. Rather, factors such as product quality, customer satisfaction, and commitment are viewed as being more important considerations. In the past, when the U.S. economy was more robust, U.S. forest products manufacturers were reluctant to expend the time and energy required in establishing these much more demanding business relationships with foreign customers. However, as U.S. economic growth has stagnated over the past half decade, more forest products firms are beginning to realize the benefits of diversifying their customer base to include foreign buyers.

Our research methodology involved the in-depth interviewing of large, medium, and small firms from the two major wood products producing regions in the U.S., the Pacific Northwest and the Southeast. Specifically, we interviewed twenty-five export managers at eighteen firms in an effort to identify and explore those factors that contribute most to increasing export performance. Participants in this research effort included both firms that

have been successful, as well as unsuccessful firms, in developing export markets. Based on an analysis of the interview data, we then developed a model of export performance.

THE EXPORT PERFORMANCE LITERATURE

A recent review of the literature by Aaby and Slater (1989) suggested that we still know very little about why some firms succeed at exporting and others fail. Since the 1960s, researchers have produced an impressive body of work on exporting (Anderson 1993; Bilkey 1978; Cavusgil and Nevin 1981; Kamath, Rosson, Ratton, and Brooks 1987; Reid and Rosson 1987) based on two models of internationalization: the Uppsala model and the Innovation-related model.

The Uppsala model (U-model) is closely associated with the research of Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977, 1990), a group of researchers based at the University of Uppsala in Sweden. This model suggests that the internationalization of a firm follows four distinguishable stages, where each successive stage represents a higher degree of international involvement (see Table 1). A firm becomes a more active exporter throughout the first three stages of the model and its increasing knowledge about foreign markets drives the internationalization process. The U-model posits that there is a direct relationship between foreign market knowledge and export market commitment. International activities require both general export knowledge and market-specific knowledge, the latter of which can only be acquired through export experience. As such, additional foreign market commitment will be made in small incremental steps or stages (Johanson and Vahlne 1977). *Thus, in the U-model, export performance is determined by incremental progression to*

higher stages of internationalization as the exporting firm becomes more knowledgeable about foreign markets.

The other major model, the Innovation-related model (I-model), considers internationalization to be an innovation of the firm. The model has its roots in Roger's (1962) stages of the innovation adoption process. While individual models proposed by Bilkey and Tesar (1975, 1977), Cavusgil (1980), Czinkota (1982), Lee and Brasch (1978) and Reid (1981) vary in details, taken together, they share a common stage-based feature. Like other innovations, the benefits derived from exporting are gradually discovered, and the firm consequently increases its international commitment step by step to take advantage of these benefits. Like the U-model, the I-model suggests an incremental approach to internationalization (see Table 1). *Thus, in the I-model model, export performance is determined by growth in exports.*

Table 1. Existing Models of Internationalization: The Uppsala (U) Model and the Innovation-Related (I) Model

The U Model	The I Model
Stage 1. No regular export activity	Stage 1. Uninterested in exporting
Stage 2. Export via agent	Stage 2. Fill unsolicited export order
Stage 3. Export via sales subsidiary	Stage 3. Export experimentally
Stage 4. Overseas production	Stage 4. Experienced small exporter
	Stage 5. Experienced large exporter

Sources: The U-Model: Johanson & Wiedersheim-Paul 1975; Johanson & Valhne 1977; 1990; The I-Model: Bilkey & Tesar 1975, 1977; Cavusgil 1980; Czinkota 1982; Reid 1981. See Anderson 1993 for a critique.

These two models have gained widespread acceptance and have been subject to much empirical testing (Cavusgil 1984; Cavusgil and Godiwalla

1982; Dennis and Depelteau 1985; Dichtl, Leibold, Koglmayer, and Mueller 1984; Sullivan 1990), with conflicting results (Bilkey 1978; Aaby and Slater 1989). Bilkey (1978, pp. 40-41) noted that the huge number of variables that may influence export behavior creates problems in predicting export performance. In order to "sort things out," Bilkey (1978) suggested combining variables into categories. Following this advice, Aaby and Slater (1989) reviewed fifty-five empirical studies published since Bilkey's (1978) review, grouping twenty-four variables into three categories: firm characteristics, firm competencies, and strategy. Despite this effort, Aaby and Slater (1989, p. 23) found that "few solid conclusions are available". For example, despite decades of research, there remains a lack of agreement regarding the relationship between firm size and export performance (Aaby and Slater 1989; Bonaccorsi 1992; Ito and Pucik 1993). Despite their intuitive appeal, the internationalization models seem to "lack explanatory power" in providing insights into the export performance of a firm (Anderson 1993, p. 227; Melin 1992).

While both models of internationalization have often been used as the basis for empirical research, it would be unfair to blame them for failing to explain differences in export performance between firms. That is because these models describe the *process* of internationalization rather than explain differences in export performance between firms. "How do firms become exporters" is a different question from "Why do some exporters succeed and others fail." Given the limitation of existing models, Root (1987) and Kamath et al. (1987) pointed out a need for a new theoretical model specifically designed to focus on the question of export performance. Kamath and colleagues (1987, p. 399) argued that "developing a cohesive theoretical base for asking the right questions about the problems at hand may pay greater

dividends" than the prevailing data-driven research and suggested adopting a paradigm from the field of strategic management that "may lead to more stimulating and fruitful generalization of ideas" (p. 413). In sum, this field of study is plagued with conflicting empirical results, and so what is needed is a prescriptive theoretical model that helps to explain export success and failure.

RESEARCH METHODOLOGY

Standard research methodology texts (Cook and Campbell 1979; Daft 1984) suggest that researchers adopt a methodology appropriate for the research question at hand. Our goal was to develop a theoretical model to answer the question "Why do some firms succeed at exporting and others fail?" Given the confusing empirical results of past research efforts that, generally speaking, employed relatively large databases, we decided to employ a case-based qualitative methodology in order to yield more in-depth insights.

Having defined the research question and methodology, we chose the U.S. wood products industry as our research setting. Many researchers studying export performance have chosen a multi-industry sample in order to increase the generalizability of their research results. However, Cavusgil (1984) and Sullivan and Bauerschmidt (1990) have argued that constancy, whether it be firm, market, or industry, is an important yet neglected feature of internationalization research that, when absent, may diminish the meaningfulness of results. Following Dess, Ireland, and Hitt (1990), we felt that a single industry setting would produce more informed interpretation and, thus, more insightful results.

The U.S. wood products industry seemed ideal for our purpose because it represents an industry where exporting is the primary mode of international business involvement. This industry (SIC 24) fits such a criterion.² The industry's major products are poles, pilings, lumber, plywood, and more highly processed wood products used for thousands of purposes. It employed approximately 500,000 people and had industry shipments of roughly \$60 billion in 1990 (*U.S. Industrial Outlook* 1990). While the industry has its share of large firms, such as International Paper, Weyerhaeuser, and Georgia Pacific that all ranked within the *Fortune* 100 in 1993, it is also populated by small firms, with the average firm employing about eighty-five people (TRINET 1989). The industry is heavily dependent upon the U.S. domestic market, and its export ratio remains small. In 1991, exporting accounted for only approximately ten percent of its total output of \$6.4 billion (CINTRAFOR 1992).

We first interviewed fourteen industry experts at eight non-commercial organizations including trade associations, state export development offices, and a collegiate forestry school; we asked them to identify successful and unsuccessful exporters in the industry for sampling purposes (Table 2). Each interview lasted approximately two to three hours, and served to broaden our understanding of key industry dynamics while identifying firms that had achieved relative success or failure in export markets. We then contacted the identified managers at exporting firms and requested interviews.

²This pattern is true even for very large firms in this industry. For example, corporate-wide, International Paper, ranked 31st in the 1993 *Fortune* 500, is an active multi-national enterprise with significant foreign direct investment (*Business Week* 1991; *Economist* 1990), but its wood products division still relies exclusively on exporting to enter foreign markets (interview).

Currently two regions, the Pacific Northwest and the Southeast U.S., produce most of the wood products output in the United States. Industry experts indicated that there are substantial differences between the way firms operate in these two regions. Until recently, Northwestern firms were able to capitalize on substantial location-specific advantages (e.g., abundance of high quality old-growth species, notably Douglas-fir) to differentiate themselves from commodity producers. However, this region has been hit hard by the recent "timber crisis" resulting from environmental rulings focused on the protection of the spotted owl. In contrast, Southeastern firms utilize a fairly uniform resource that is ideally suited for the high-volume production of commodity dimension lumber products for use by the construction industry. These differences in regional industrial dynamics led us to stratify our sample into the two specified regions.

Since large firms' strategic outlook, resources and constraints tend to differ from those of smaller ones (Miller 1988), we also stratified our sample by firm size, selecting four large firms and five small and medium-sized firms in each region. While the differentiation between large firms and small firms is somewhat arbitrary, we employed the U.S. Small Business Administration definition of a small business as "a firm with an average of no more than 500 employees over a twelve-month period." The large firms in our sample employed over 1,000 people. While all of the large firms included in the study have exported, a few have been relatively unsuccessful in some export markets, including a *Fortune 100* firm that recently withdrew from Europe following twenty years of doing business there. The small firms we selected were identified by experts as being generally successful in developing export markets for their products.

Table 2. Listing of organizations and firms interviewed

Region	Organization	Number of People Interviewed	
Pacific Northwest	<u>6 Non-Commercial Organizations</u>		
	American Plywood Association (Tacoma, WA)	1	
	Evergreen Partnership (Olympia, WA)	1	
	Washington State Department of Trade and Economic Development (Seattle and Olympia, WA)	4*	
	Center for International Trade in Forest Products, University of Washington (Seattle, WA)	4	
	Western Wood Products Association (Portland, OR)	1	
	WoodNet (Port Angeles, WA)	1	
	<u>4 Large Firms</u>		
	NWL1	1	
	NWL2	2	
	NWL3	3*	
	NWL4	2	
	<u>5 Small and Medium-Sized Firms</u>		
	NWS1	1	
	NWS2	2*	
	NWS3	1	
	NWS4	1	
	NWS5	1	
	Southeast	<u>2 Non-Commercial Organizations</u>	
		Southeastern Lumber Manufacturing Association (Atlanta, GA)	1
Southern Forest Products Association (New Orleans, LA)		1	
<u>4 Large Firms</u>			
SEL1		1	
SEL2		1	
SEL3		1	
SEL4		3	
<u>5 Small and Medium-Sized Firms</u>			
SES1		1	
SES2		1	
SES3		1	
SES4		1	
SES5		1	

* Multiple interviews conducted at different times.

Following the initial interviews with industry experts at non-commercial organizations, we interviewed twenty-five managers at eighteen wood products firms, half of which are located in the Pacific Northwest and the other half in the Southeast U.S. Prior to conducting these interviews, we prepared a questionnaire that was based on insights obtained during previous discussions with industry experts. In addition, each manager was encouraged to discuss other issues and factors not included in the questionnaire but which they considered to be important with respect to their firm's export performance. Each interview was organized around four major themes: (1) the history of exporting at the firm and identification of current export markets, (2) the type of organizational structure used for exports, (3) those factors to which the firm's success (or lack of success) in export markets could be attributed, and (4) measures of current export performance.

Individual interviews typically lasted two hours, but occasionally lasted as long as three hours or more. In most of the large firms, the respondent was the wood products export manager. In small firms, we interviewed either the sales manager, who tended to handle both foreign and domestic sales, or the president/owner of the firm. Extensive notes were taken by each interviewer.³ Immediately following each interview, team members met to discuss their impressions of the interview and to document all comments and information obtained during the course of the interviews. The information received from each respondent was verified to the extent possible using information obtained from industry experts and from archival

³In the first round of interviews with firms in the Pacific Northwest, both authors were present for interviews. Due to resource constraints, the second round of interviews conducted in the Southeast involved only one interviewer.

Table 3. Firm Level Export Data

	Firm Size (employ/\$)	Export Intensity	Export Markets	History yr/country	Distribution Channel	Export Structure
NW Large						
NWL1	20,000 \$3.9 bil.	5%	Asia, Europe	1977	Direct, Intl. Offices	Central. Expt. Dept.
NWL2	1,600 \$400 mil.	9%	Asia, Europe	1982	Canadian Exporters	Expt. Sales Mgr.
NWL3	8,000 \$1 bil.	5-10%	Asia, Europe	Long time	Direct, Agents Varies by Product	Decentral.; Plants
NWL4	40,000 \$8.7 bil.	20%	Asia, Europe	20-30 yrs.	Direct, Intl. Offices	Decentral.; Regions
NW Small						
NWS1	260 \$100 mil.	85%	Asia, Europe, Mid.East	1972	Direct, Agents	Intl. Trade Division
NWS2	200 \$40 million	6%	Asia, Europe	1967	Agents	Export Dept. Domestic Sales
NWS3	500 \$300 mil.	70%	Asia, Europe	1980	Direct, Agents	Export Division
NWS4	16 people \$1.1 mil.	80%	Europe	1990	Direct, Agents	General Sales Mgr.
NWS5	25 \$10 mil.	25-30%	Asia	1979	Wholesalers, Agents	General Sales Mgr.

Table 3 (Continued)

	Firm Size (employ/\$)	Export Intensity	Export Markets	History yr/country	Distribution Channel	Export Structure
SE Large						
SEL1	44,000 \$11.5 bil.	3-4%	Europe, Mexico	1920's	Direct, Agents Intl. Offices	Export Dept.
SEL2	70,000 \$12.7 bil.	15%	Europe, Asia, Mid. East, Mex.	1980	Direct, Agents Intl. Offices	Export Dept.
SEL3	13,000 \$2 bil.	20%	Europe, Asia, Mid. East, Mex.	1962	Agents	Export Dept.
SEL4	7,000 \$1.25 bil.	3%	Europe, Asia, Mid. East, Mex.	Sev. yrs.	Direct, Expt. Trading Co's.	Decent.-Gen. Sales Mgr.; Plant
SE Small						
SES1	115 \$9 mil.	90%	Europe, Mid. East, Mexico	1990	Expt. Trading Co.	Owner/VP Sales
SES2	83 \$4 mil.	20-25%	Europe, Asia	1990	Expt. Trading Co.	President
SES3	18 \$2.9 mil.	20%	Europe, Asia	1960's	Agents	Domestic Sales. Mgrs.
SES4	100 \$15 mil.	50%	Europe, Asia	1962	Agents	Owner/Sales Mgr.
SES5	76 \$10 mil.	25%	Europe, Mid East	1923	Agent	Sales Mgr.

sources such as annual reports. Descriptive sample data obtained from these interviews is summarized in Table 3.

Export performance is usually defined by employing one of three measures (Aaby and Slater 1989; Shoham 1993). The first measure of export performance is export propensity (i.e., whether the firm is an exporter or non-exporter). This distinction is useful in differentiating between exporting and non-exporting firms within an industry but fails to differentiate successful exporters from unsuccessful ones. A second measure of export performance is export intensity, which is defined as the ratio of export sales to total sales (Axinn 1988; Ito and Pucik 1993). A third measure of export performance is export growth, a dynamic concept which captures export performance over time (Cooper and Kleinschmidt 1985). None of these definitions addresses export profitability, possibly because many samples have included private, and/or international firms, many of which are not required to publish public financial reports.

Given the complexity of measuring export performance, we decided to measure both export intensity and export growth (or decline). When we asked industry experts to identify successful and unsuccessful firms based on their own subjective criteria, we found that export success generally meant that a firm had achieved an export intensity greater than ten percent and/or achieved significant export growth over the past five years. Because we decided to focus our attention on the export intensity and export growth of each firm during the past five years (1987-92), implications of this choice for subsequent testing of the model are discussed later in this monograph. Specific propositions derived from our study about factors influencing export performance are presented in the following section.

RESULTS

Does firm size matter?

Many authors have argued that firm size has a positive effect on export performance (Cavusgil, Bilkey, and Tesar 1979; Cavusgil and Nevin 1981; Ito and Pucik 1993; Reid 1982; Yaprak 1985;). By inference, smaller firms tend to be non-exporters or less successful exporters. However, Bonaccorsi (1992), Cavusgil (1984), Czinkota and Johnston (1983), and others concluded that firm size has no relationship with export performance. Cooper and Kleinschmidt (1985) even established a negative relationship between firm size and export intensity. At present there is little agreement in the business literature regarding the impact of firm size on export performance (Aaby and Slater 1989).

The results of our research lend support to those who argue that firm size has no relationship with export performance. During our discussions we found that both small and large firms can be successful in exporting and that under certain conditions small firms can do quite well in export markets. The most striking examples of this success included a firm employing sixteen workers in the Northwest that exports eighty percent of its production, and an 115-employee firm in the Southeast that exports ninety percent of its production. In contrast, many large firms interviewed appeared to have certain structural disadvantages that may limit their export success. Thus, it might be suggested that the positive relationship between size and export performance that has been reported by other researchers may actually stem from other underlying organizational variables or from statistical artifacts (refer to the discussion section). This finding is somewhat consistent with

Bonaccorsi (1992), who reported that once a certain size limitation is overcome, small firms have the same chance of succeeding in export markets as do large firms.

Proposition 1. There is no direct relationship between firm size and export performance.

While this proposition is not new, the basis underlying this finding seems to be that the advantages typically associated with large firms, such as economies of scale and scope, name recognition, abundant timber supply, substantial financial resources, and the ability to absorb high margins of error (Hay and Morris 1979) may not automatically lead to success in exporting. Even more interesting is the question of why certain small firms, which are unable to compete with large firms on the basis of these traditional factors, can sometimes outperform their larger competitors in export markets. On the basis of our research, it appears that the advantages that accrue to small firms may stem from differences in managerial innovativeness, commitment to exporting, knowledge of export markets, and the firm's ability to produce quality products.

Does management matter?

The second relationship examined in this research was that between management quality and export performance. The research results indicate that at least two management factors seem to have a positive impact on export performance and these are managerial innovativeness and commitment to exporting.

Managerial Innovativeness

Axinn (1988), Bilkey (1978), Lee and Brasch (1978), and Reid (1981) reported that managers at exporting firms tend to have a high aspiration level characterized by a high degree of risk tolerance, an aggressive drive, and a strong profit motivation. Our data indicated that managers at successful exporting firms tended to be more entrepreneurial and were constantly working to provide both value to their customers and profits to their firms. For example, during a short two-year period (1990-92), a small Southeastern firm with annual sales of nine million dollars and 115 employees effectively changed from a non-exporter to exporting ninety percent of its annual production. The principal reason for this change was that the company began losing money during the recession of the late 1980's due to an exclusive focus on the domestic U.S. market. The sales manager of this firm indicated that:

The big guys could afford losing money forever, but we couldn't. Therefore, we had to find a stable market to obtain sustained profits. We sat down, had a meeting, and decided to go international. That was it, then we totally shifted our emphasis to exports.

As a result of this strategic shift, during a painful recession when many small firms "basically sit there to die out" this company was able to survive and thrive in new markets. The success of this company can be attributed to its managers' remarkable entrepreneurial ability to redefine its niche in export markets.

On the other hand, export managers at several large firms we interviewed displayed a totally different attitude to exporting. "Our export strategy is to supplement the domestic market, to fill volume gaps, and to

counterbalance domestic demand fluctuations," one export manager at a large firm told us. "Our supportive role led us to a reactive stand in foreign markets. We could have done more in terms of developing foreign markets. But my department is evaluated by how we pour in orders to keep our mills running; as long as we have done this part, we are OK."

Such a reactive attitude to exporting at large firms leaves room in export markets for small firms with entrepreneurial and proactive managers to develop profitable niche markets (Miles and Snow 1978). In the domestic market, small firms are often confronted by large competitors who are capable of effectively retaliating against challengers. Facing such formidable competitors, small firms cannot successfully challenge the industry leaders directly. Rather, an effective strategy for smaller firms is to redefine the strategic focus of the firm relative to that of the industry leaders (Porter 1985). Under these circumstances, pursuing an export strategy becomes an innovative way for small firms to avoid direct confrontation with industry leaders, particularly when the industry is focused primarily on the domestic market. The strategic focus of the industry leaders toward the domestic market emphasizes their strong commitment and may result in an invincible domestic presence. At the same time, this strategic focus may be an indication of their reluctance towards expanding into international markets (Mascarenhas 1986). By taking advantage of such inflexibility, innovative small firms may enter the international market without attracting the industry leaders' attention. Even large firms that export, may not retain the competitive advantages that they possess in the domestic market when serving overseas markets. Some advantages, such as domestic reputation and economies of scale, may not be readily transferred into international markets.

Proposition 2. The greater the managerial innovativeness, the greater the export performance.

In short, while the vast majority of small firms don't consider exporting a viable option for growth, innovative small firms do go into foreign markets and attain superior performance. During this process, management commitment to exporting plays an indispensable role.

Management Commitment

Our research found that, regardless of firm size or geographical location, the top management of successful exporting firms was often strongly committed to exporting. Prior studies have suggested that motivation and perceived barriers to a firm's involvement in exporting are largely related to internal factors within the firm rather than external factors (Cavusgil 1984; Gomez-Mejia 1988; Reid 1981). Our data suggests that most firms, especially large ones, tend to view exporting as a marginal business, an occasional opportunity, or a safety net for a poor U.S. economy. Managers at these firms are preoccupied with the vast domestic market to such an extent that they are unable to detect opportunities and requirements in export markets. A common attitude among these managers was that "when an order from abroad comes in, if it fits our existing dimensions we will do it; otherwise we'll have to turn it down."

One result of being highly dependent upon the domestic market is that the wood products industry is subject to significant domestic market fluctuations, suffering during recessionary periods when construction activities decline. Moreover, significant reductions in timber supplies due to

recent environmental rulings have further compounded the difficulties the industry is facing. In this highly volatile, competitive, and uncertain business environment, exporting represents an attractive alternative for firms looking to stabilize their business environment, increase sales, maintain employment levels and utilize excess production capacity. To small firms that find themselves increasingly unable to compete with larger producers on the basis of price in domestic markets, export markets may be particularly attractive. In export markets, such firms may be able to capture higher margins from products that are traditionally viewed and marketed as commodities in the United States. To large firms, increased productivity has resulted in excess capacity resulting in a need to develop new markets for their products. Exporting offers both types of firms the opportunity to increase production, while smoothing out domestic market fluctuations.

The dilemma is that foreign customers, many of whom are willing to pay more for value-added customization, place a high value on establishing long-term relationships with their suppliers. However, many U.S. manufacturers appear to be more concerned with following price trends to locate the highest-price market. This lack of commitment to relationship building with foreign customers, as well as a reluctance towards producing customized products, are the principal reasons why many firms are unsuccessful in entering foreign markets. A representative of a forest products trade association put it more bluntly, "We just don't care about foreign markets except as dumping grounds." As a result, foreign customers who place a high value on the reliability of their supply sources are reluctant to form long-term relationships with these firms. They either do business with other U.S. firms who demonstrate a sincere commitment to establishing

a long-term business relationship, or they seek out suppliers from other countries.

Such lack of commitment to exporting is also reflected in the limited budgetary resources allocated to export departments. Exporting at many large firms, which typically export less than ten percent of their total production, is often delegated to departments that are low in prestige, understaffed, and outside the mainstream organizational structure of the firm (Gomez-Mejia 1988). One manager at a large Northwestern firm complained that his export department had to constantly beg for resources from the (domestic) marketing department, which caused significant morale problems.

We found that the top management of firms who were successfully exporting, particularly small firms, all displayed a strong commitment to exporting and a willingness to "go an extra mile" to satisfy foreign customers' unique needs and wants. More successful firms are able to involve the entire organization in export-related activities and a large part of their organizational routines centered on exporting (Cavusgil 1984). One example is the willingness to cut metric, the most basic requirement to serving many foreign markets. While many computerized firms are able to switch over to metric sizes rapidly, "they just don't bother," according to the owner of a small firm in the Northwest. "The refusal to cut metric, even when technically feasible, is dumb." This manager had previously worked for a large firm for twenty years and was unhappy with the way exports were handled. Three years ago he started his own company and now his sixteen employee firm ships eighty percent of its output to Europe. Difference in management commitment to exporting seems to play a large part in differentiating successful exporters from unsuccessful exporters.

Proposition 3. The greater the managerial commitment to exporting, the greater the export performance.

Does knowledge matter?

Managerial qualities such as innovativeness and commitment to foreign markets alone do not automatically lead to export success. The Uppsala (U) model filled an important gap in the literature by suggesting that knowledge about foreign markets and managerial perceptions toward exporting are an integral part of a firm's internationalization process. Johanson and Valhne (1977, p. 28) suggested that "there is a direct relation between (foreign) market knowledge and (foreign) market commitment." To a certain degree, our data supported the U-model although some of the insights concerning how firms acquire foreign market information are surprising.

Our research suggests that knowledge about export markets can provide a firm with a critical competitive advantage. For example, without much exposure or training in international business, three managers at a relatively unsuccessful small firm in the Southeast complained about the multitude of strange requirements in export markets. On the other hand, the owner/CEO of a small Northwestern firm suggested that "exporting isn't much different from domestic business." This difference in attitude toward export markets can be attributed to differences in firm histories. The small Northwestern firm started as a shipping company for large firms in the 1930s. "We were perhaps one of the first companies doing business in East Asia. We shipped a lot of lumber to China in the 1930s to build its railroads and to Japan in the 1940s and 1950s for its reconstruction." Decades of

experience in exporting helped routinize the export operation and overcome fear of the complexity involved in exporting. Such administrative heritage nurtured a cadre of managers who handle exports with ease. Even when the company later diversified into the production side, it still maintained a clear knowledge advantage over other firms. This firm is currently serving as an agent not only for firms in the Northwest, but also for several firms in the Southeast, thus leveraging its knowledge advantage in the current export boom.

Proposition 4a. The greater the managerial knowledge of foreign markets, the greater the export performance.

Interestingly, our data also suggest that even when the exporting firm doesn't have any significant knowledge of foreign markets, it can still rely on the expertise of carefully chosen export agents, such as export trading companies, export management companies, or foreign-based importers. The most successful agents provide value to their customers in two ways: (1) they provide detailed, industry-specific knowledge of export market product requirements; and (2) they bundle non-competing firms' products together to offer foreign customers a broader product line.

Forming export consortia, however, may not be an easy thing to do in the forest products industry, which was characterized by one industry expert as being populated "by a bunch of cowboys" who express an individualistic and competitive mentality. Export trading companies can greatly facilitate the formation of these consortia in ways that are acceptable to client firms. Clearly, tradeoffs exist, as firms must pay commissions to whatever form of export distribution channel they choose. However, higher export margins

(relative to domestic margins) more than cover these expenses. Moreover, the ability to utilize the services offered by various trade intermediaries may greatly speed up the organizational learning process and help overcome the initial uncertainty that managers of small firms face, thus making quantum leaps in exporting possible.

During the course of the interviews we observed a striking difference based on the geographic location of the firms visited. In the Southeast, we found that many of the small firms that export more than a quarter of their total production rely heavily upon outside agents in gaining access to foreign markets. The outside agents most often employed were export management companies whose knowledge of foreign markets result in significant export gains for their clients within a remarkably short time frame. In contrast, we found that few firms in the Pacific Northwest utilize the services of such companies. Rather, firms in this region frequently rely on intra-firm managerial resources to develop and implement their export strategies. Frequently we found that the managers and/or owners of these firms have previous knowledge about the export markets with which they are conducting business. These results may indicate that firms in the Southeastern U.S. may be more proactive about developing export markets than are their counterparts in the Pacific Northwest.

Due to the importance of acquiring knowledge about foreign markets, both the U-model and the I-model of internationalization incorporate a stage-based process of increasing export involvement (Bilkey 1978; Johanson and Valhne 1977, 1990; Reid 1981). At this point an analysis of our export data led us to diverge from the stage-based process proposed in both models. We believe that "quantum leaps" (Gersick 1991; Miller and Frieson 1984) in exporting are possible under certain conditions. First, in this highly

competitive industry plagued by domestic recessions and other threatening environmental conditions, firms are pushed to "sink or swim" within a very short time frame. As a result, forest products firms, especially small ones, find themselves pressured to shift their strategic focus from the slumping domestic market, and they begin developing export markets (Rao, Erramilli, and Ganesh 1990). This sense of urgency may substantially increase the motivation to export. Second, successful small exporters in an uncertain business environment tend to select value-added export channels and "tap external resources" (Jarillo 1989) to help them overcome their knowledge disadvantage.

Our data indicate that in some cases rapid progress can be made in a very short period of time. The most striking example is the small Southeastern firm mentioned earlier. This small firm possessed neither experience nor knowledge about foreign markets when it started to export in 1990. Nevertheless during a short two-year period, it has shifted its strategic focus almost entirely away from the domestic market with the help of a management company.

Proposition 4b. The greater the acquisition of knowledge of foreign markets through alliances with experienced export management organizations, the greater the export performance.

It is our contention that knowledge of foreign markets plays an indirect and moderating role in determining export performance (Propositions 4a and 4b). Significant achievements in exporting are still possible at certain firms even without sufficient initial knowledge about exports. Such firms typically possess a cadre of innovative managers who are

willing to learn and experiment (Proposition 2) and who are committed to exporting (Proposition 3).

Does quality matter?

Neither the U-model nor the I-model relates a firm's ability to produce quality products to the internationalization process. Our data suggest that producing a high-quality product, and having it be perceived as such by foreign customers, is directly linked to export success.

Proposition 5. The greater the firm's ability to produce high-quality products, the greater the export performance.

In contrast to the U.S. market which is characterized by its huge size and price-based competition for commodity products, export markets for wood products tend to be smaller while demanding quality and differentiation of products and services. This is especially true in Japan and Europe, where foreign customers are often willing to pay a higher price for quality. Although small firms have a difficult time competing directly with large firms in the price-sensitive U.S. market, they may possess a potential advantage over large firms when it comes to value-added production for export markets.

We found that each of the successful exporters interviewed during the course of this study had established a strong reputation for quality within the domestic market before they ventured abroad. A "stuck-in-the-middle" company, which has not developed a reputation for quality in the U.S. market, is unlikely to be successful in export markets. The notion of using exporting as "the least resistance path to firm growth" (Bonaccorsi 1992, pp.

624-626) for mediocre companies seems to be refuted by our evidence, at least within the forest products industry. Even those small Southeastern firms that did not have substantial knowledge of foreign markets had acquired a reputation for high-quality products prior to successfully developing export markets. In fact, the quality factor seems to be an important reason for these companies' strategic shift into export markets. For example, a small Southeastern firm was contacted by a management company to start supplying foreign markets. "Out of so many companies, large and small, why did they come to you?" we asked. "Because we have always been known as one of the finest quality manufacturers in the industry," the manager told us with pride.

While product features are important to export customers, other product attributes, such as packaging, stenciling, and appearance, are equally important because they are indicators of a producer's attention to details. Likewise, foreign customers consider the ability of U.S. suppliers to cut and finish products to their specifications to be an important factor. Successful exporters pay attention to both product and process quality.

TOWARD A RESOURCE-BASED MODEL OF EXPORTING

The objective of this study was to develop a better understanding of why certain exporters succeed and others fail. Based on the results of interviews with fourteen industry experts and twenty-five export managers at eighteen U.S. wood products companies, we employed a grounded theory development approach to develop a resource-based model of exporting. The overall result of our work is a model (Figure 1) that directly links export performance with managerial innovativeness (Proposition 2), management commitment (Proposition 3), the firm's ability to produce quality products

(Proposition 5), and moderated by the firm's knowledge about foreign markets (Propositions 4a and 4b)

We found that firm size has no relationship with export performance (Proposition 1). While most of the small firms in our sample were relatively successful exporters, the fact that several large *Fortune* 500 firms in our sample performed poorly suggests that size-related advantages do not automatically lead to export success. What counts is a firm's internal resources, many of which are of an intangible nature rooted in management quality (Jacobson 1990). This new model, which is predicated on the resource-based view of the firm, will be referred to as the R-model to differentiate it from the existing U-model and I-model.

The R-model explains why certain firms succeed in exporting while others fail, at least in the forest products industry (Figure 1). During the course of our research we found that the size-related advantages large firms possess, such as economies of scale and scope, abundant supply of timber, and substantial financial resources, are tangible resources which often can be competed away in export markets. Smaller, more fragmented foreign markets render economies of scale and scope that are geared towards the larger, price-conscious U.S. market a liability rather than an asset.

Competitive advantages derived from abundant timber supply and deep financial resources may erode rapidly when the industry is suffering from a persistent "timber crisis" and increased international competition.

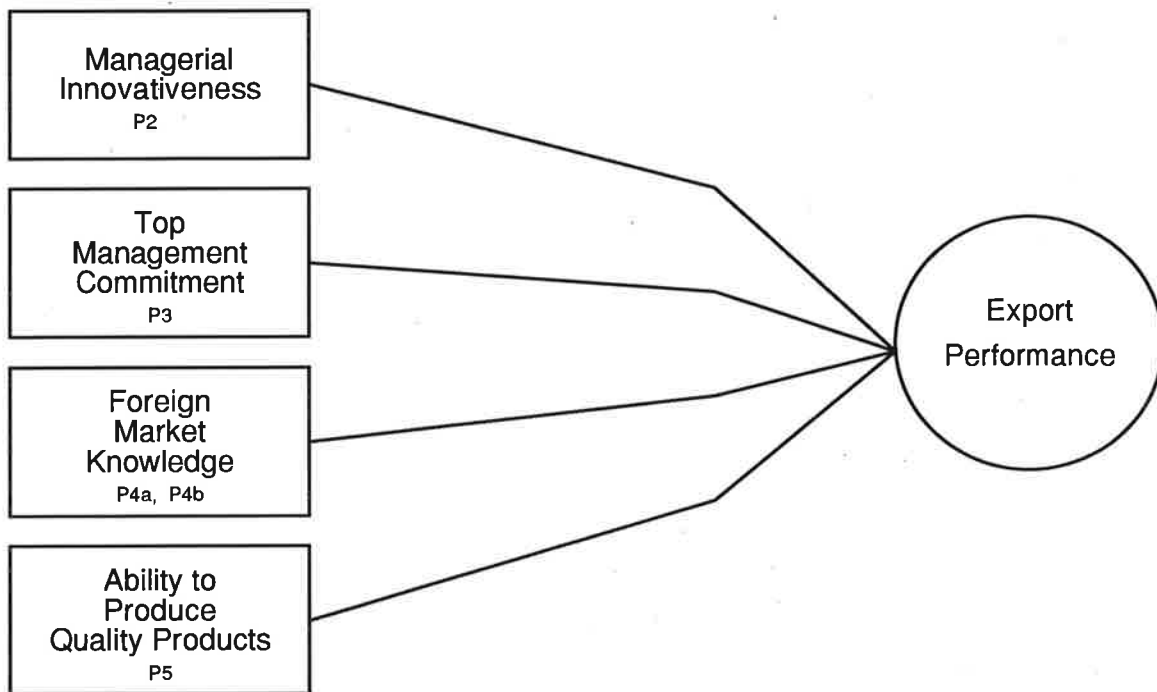


Figure 1. The R-Model: A Resource-Based Model of Export Performance.

Rather, the new battleground for export success lies in intangible resources. Specifically, exporting firms compete on how innovative and committed their managers are, on how well they can produce high-quality products that satisfy foreign customers' needs and wants, aided by the depth of knowledge and experience they possess concerning foreign markets in addition to their ability to speed up the learning process by tapping external resources such as export trading companies. Competitive advantages based on these intangible resources appear to be more difficult to imitate since competitors may not be able to easily isolate them (Reed and DeFillippi 1990; Rumelt 1987) and, therefore, would find a hard time acquiring or developing them. Further, there is some evidence that a synergistic relationship exists between these intangible resources. Thus, as a firm acquires or develops more of these intangible resources, the benefits that accrue to that firm in the form of improved export performance increase geometrically rather than

linearly. The R-model we developed is not necessarily at odds with the existing U-model and I-model. We view our model as a complement to, and enhancement of, existing models.

Implications for the U.S. Wood Products Industry

This research has significant implications for the wood products industry in the United States. While historically competitive and unstable, it has become increasingly clear that in the 1990s and beyond the industry will become more "hypercompetitive" (D'Aveni 1994), largely due to severe timber supply problems, which recent political compromises will not alleviate. Therefore, "how to make more from less" will be a recurring problem facing every manager. Increasing value-added exports has been identified as a good option for overcoming the boom-bust cycles of the domestic market, maintaining employment levels, and capturing higher margins. However, many managers, especially those at smaller firms, tend to think that only large firms can achieve export success and that small exporters are doomed to fail, thus defeating themselves before they even start.

Our research clearly indicates that small firms are not only able to export successfully, but that they may also possess certain advantages, such as managerial innovativeness and commitment, over their larger competitors. While some small firms have developed their export markets over a number of years, others didn't begin exporting until a few years ago. The prevailing thinking of these newcomers appears to be that "exporting is unique but not intimidating."

While tangible resource-based advantages are rapidly eroding (such as previously abundant timber supply), the battleground is shifting to competition based on intangible resources. Such resources are admittedly

more difficult to develop, but they are not impossible to achieve. Moreover, such resources don't exclusively belong to large firms, as small firms may have a better chance to acquire these intangible resources to create competitive advantages. As long as the managers of small firms are innovative and committed to exporting, and the firm has the ability to produce quality goods that are desired by foreign customers, they can still succeed in developing export markets even if they have limited knowledge of foreign markets. This process can be sped up substantially by the selection of the appropriate export agents.

On the other hand, most managers at large firms understand the importance of exporting and often have tangible resources to devote to the process. Despite these advantages, they tend to underestimate the importance of intangible resources. They have a hard time developing the commitment and flexibility necessary to export successfully, especially when their export volume is low relative to total firm sales. To be successful, large firms may need to emulate successful small firms by dedicating specialized divisions and mills to exporting and by decentralizing product allocation decisions to the plant level to encourage long-term commitment to export markets.

DISCUSSION

Implications for Managers in Other U.S. Industries

While the R-model was developed within the context of a single industry, we believe that our results might be appropriate for other resource based industries. First, the tendency of managers to focus almost exclusively upon the U.S. domestic market is not limited to the wood products industry. While failing to consider opportunities abroad may be acceptable as long as domestic demand remains strong, shifting global patterns of competition have rendered such strategies obsolete in a growing number of industries. Other developed markets such as Japan and Europe and emerging markets such as China and Eastern Europe may offer much better growth opportunities for many U.S. industries while providing firms with the opportunity to reduce their dependence upon cyclical U.S. markets.

Second, our results appear to be applicable to a broad range of commodity-oriented industries, such as agriculture and steel. Each of these industries are confronted with the challenge of differentiating their products in order to add more value to their product mix. For example, despite the fact that almost all the major airlines are losing money, quite a few small airlines have entered the market and are making profits. This trend testifies to the power of competitive advantages that are rooted in intangible resources. Thus, the importance of intangible resources, which we have emphasized so strongly throughout this paper, may be of importance to many managers in commodity-oriented industries.

Finally, the results of this research may be directly relevant to industries that are based on location-specific advantages similar to the forest products industry (i.e., fisheries, minerals, oil, and natural gas). Such location-specific advantages limit the strategic flexibility of these industries

because they are typically unable to shift their production abroad to take advantage of incentives such as reduced production costs. As a result, they are forced to rely on exporting as their primary mode of entry into foreign markets. For these industries, the lessons derived from the success and failure of exporting firms in an allied industry can be invaluable.

Implications for U.S. Public Policy Makers

The finding that knowledge is a necessary condition for export performance, but that knowledge does not need to reside within firm boundaries, has important public policy implications. Significant budget dollars are allotted each year at the federal, state, and local levels to stimulate interest in exporting through a variety of export promotion activities. In retrospect, the returns from these investments seem to be low, as evidenced by the lack of interest in exporting expressed by most small firms. The success experienced by firms which had the production capabilities to export and who ventured outside their firms boundaries to gain access to export knowledge suggests that government money might be better spent identifying and supporting agents who already possess and can provide export market knowledge.

Limitations of the Study and Future Research

This research used a qualitative, grounded theory approach to generate a resource-based model in order to explain success and failure in exporting. While this model may be contextually rich, it is based on the experiences of a single industry. Certain features in this industry, such as the "timber crisis," may be highly industry-specific, and other industries may have entirely different concerns. Though we have made the argument that

the R-model may be generalizeable to other industries, such a claim remains to be verified by future researchers in other industries.

A second limitation of this study is that it is U.S.-based. Despite the trend toward globalization, country-specific conditions will continue to play a large role in shaping an industry's evolution. Recent writings in international management have expressed a strong dissatisfaction with imposing and generalizing U.S.-based research to other countries and has called for a "multinational triangulation" design in theory development (Boyacigiller and Adler 1991; Doktor, Tung and Von Glinow 1991; Osigweh 1989; Peng 1993). Therefore, we caution that the R-model we developed may not be applicable to other countries without further testing and modification. For example, the strategic focus of many U.S.-based firms toward the domestic market is primarily due to the size of the domestic market and the familiarity of U.S. managers with this market. Firms in other countries that possess smaller domestic markets may have a much higher propensity to export (Bartlett and Ghoshal 1989; Bonaccorsi 1992; Ito and Pucik 1993).

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