The globalization of smaller agri-food firms: a decision-making framework tested through case research

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Abstract

Anecdotal evidence suggests that smaller firms are responding in various ways to market trends towards globalization. A fundamental question arises as to why some smaller firms are including global markets in their strategies and business operations while other firms with similar size and product mix are not. This paper hypothesizes necessary and sufficient conditions for a smaller agri-food firm to become actively global in perspective and practice. An hypothesized decision framework is articulated and results are reported from eight cases used to test this framework. The paper concludes that perceptions about competitive advantages and effective demand, and operative decision rules employed by the firm will determine if and when a firm can globalize its scope of operations. © 2001 Elsevier Science Inc. All rights reserved.

1. Introduction

Globalization is a key force driving the evolution of the agri-food system. Many agri-food firms are responding by expanding their international presence through exporting activity, international joint ventures, and foreign direct investment. Anecdotal evidence suggests that this trend towards globalization affects all firms, regardless of size or product mix. The anecdotal evidence also suggests that individual firms, particularly smaller firms, are responding in various ways to this changing environment. Some are remaining exclusively

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focused on their traditional domestic markets, while others are aggressively pursuing newly perceived or available opportunities in global markets.

A fundamental question arises as to why some firms are going global with their strategies while other firms with similar size and product mix are not. To address this question, this paper’s research objective is to identify and model the necessary and sufficient conditions for a smaller agri-food firm to become actively global in perspective and practice. A hypothesized decision framework is articulated in the first section of the paper. The next section lays out the methodology used to test the framework based on case studies. The results of eight case studies are then reported. Finally, conclusions and recommendations based on the framework and case study test are presented. In addition to the objective of exploring the globalization process of smaller agri-food firms, the paper attempts to present an appropriate method for reporting multiple case study findings. This research approach has not been common in the agricultural economics literature, though Sterns, Schweikhardt, and Peterson (1998) articulated a case research methodology that is adopted here.

As a matter of clarification, the following definitions are provided. “Globalization” refers broadly to any extension of a firm’s market activity into an international context, including export sales, international joint ventures, foreign direct investments, and sourcing of inputs from foreign markets. “Smaller” refers to firms with annual gross sales of $150 million or less and/or 150 employees (FTE’s) or less. “Agri-food” refers to those industries and subsectors involved in the production, processing and delivery of food and agricultural products to the end consumer (i.e., “gate to plate”).

2. Literature review and hypothesized decision-making framework

Relevant published works addressing this paper’s topic are found across a broad spectrum of literature within the fields of management, marketing, economics, and agricultural economics. Researchers have typically taken one of two general approaches by either (1) identifying why firms globalize or (2) assessing how firms globalize. When addressing why firms globalize, researchers have focused on either factor endowments (e.g., Blaug, 1985; Krugman, 1987; Dunning, 1988) or market failures (e.g., Vernon, 1966; Johanson Cavusgil, 1980; Czinkota, 1982; Reid, 1983) as the principal determinants of the process. When addressing how firms globalize, researchers have examined: (1) the decision processes of firms (Rynning Baird, Lyles, (2) the motivations for choosing particular globalization strategies (Barringer, Wortman, Byford and 3) the key resources within firms that make globalization possible (Cavusgil Bonaccorsi, 1992, 1993). This paper provides only a brief, selective synopsis of this literature since more comprehensive reviews are available elsewhere (Andersen, 1993; Dichtl, Leibold, Köglmayr, Ilter, 1984; Itaki, 1991).

One highlight of this literature is an apparent consensus supporting the proposition that there are three general classes of explanatory variables underlying the globalization process: the characteristics of the firm, the idiosyncracies of the decision maker, and the external “environment” in which the firm must compete. Debate within this consensus simply revolves around issues of the relative importance of each of these classes of explanatory variables and how to make the explanatory variables operational.
A second highlight of the literature is a relatively small set of “predictors” of globalization—explanatory variables which correlate strongly with decisions related to globalization. These include firm size, frequency of receiving unsolicited orders from abroad, perceptions of barriers to entry, and perceptions of risks associated with negotiating sales and collecting payment. Larger firm size and higher frequencies of unsolicited orders correlate positively. Perceptions of barriers to entry and risks of sales correlate negatively.

As others have noted, one of the limitations of the literature is that there is little emphasis on specifying the necessary and sufficient conditions for globalization to occur (Andersen, 1993). Even though considerable work has been done on identifying and making operational the three general classes of explanatory variables, determining which of these variables are fundamentally necessary and/or sufficient to initiate and then sustain globalization remains largely an unanswered research question. Further, much of the literature’s understanding of the globalization process is built upon empirically identified correlations. Only a limited amount of work has been done to develop an underlying theoretic basis that could provide a context for understanding these correlations and for specifying a general globalization model.

To provide an alternative to the literature’s general conceptualization of the globalization process, this paper proposes the following decision model based on fundamental economic concepts. This model asserts that there are a set of the necessary and sufficient conditions that must be met before a firm will choose to participate in a globally competitive environment.

First, the decision maker must perceive that there is demand for the firm’s products in an international market. Common sense notwithstanding, economic principles assert that market forces tend to equilibrate demand and supply. Without a perceived effective demand, there is little reason to believe a firm would or should produce a sustainable supply.

Second, the decision maker must perceive that the firm has a competitive advantage in its ability to transform inputs into outputs. This implies that the relationships across the firm’s production functions, cost curves and production frontiers are such that the firm’s products are competitive in terms of price, quality, and/or features relative to other products on the market. Transformation advantages must also transcend the logistics costs of transporting products on a broad geographic scale.

Third, the decision maker must perceive that the firm has a competitive advantage in its ability to transact in international markets. Williamson (1985), Williamson and Winter (1991) and many others have noted that there are costs associated with transactions. The implication is that a given firm’s governance structure, its ability to negotiate contracts, and in general, its ability to manage the costs of transacting in the market affect overall firm performance. The decision maker must believe that the firm can manage the costs of transacting in an international market before the firm will choose to compete in that market.

These three “driving forces”, as specified, are necessary conditions for firm-level globalization. The fourth factor that completes the set of necessary and sufficient conditions are the set of operative decision rules employed by the decision maker. Only when these decision rules support the needed resource trade-offs will the firm actually globalize. For example, an economic decision rule would favor globalization if the net marginal revenue associated with an additional export sale exceeds the net marginal revenue associated with
an additional domestic sale. Even if there are a known demand and known competitive advantages, the firm will not globalize without the perception that global markets “fit” the goals, priorities and strategic plans of the firm, that is, they prove acceptable by the firm’s decision rules.

The conceptual framework is summarized in Fig. 1. The underlying research hypothesis is that the necessary and sufficient conditions for a smaller agri-food firm to decide to globalize are: (1) perceived effective demand; (2) perceived competitive advantages in the transformation process of inputs into outputs; (3) perceived competitive advantages in the management of transaction costs; and (4) a set of decision rules employed by the firm’s decision maker that do not impede the globalization process at the firm-level. A small firm will globalize if and only if all four conditions are true.

3. Materials and methods

In keeping with the recommended methodology of Sterns et al. (1998), this research can be described as using a multiple case, single unit of analysis approach. The single unit of analysis was a firm’s decision-making process relevant to globalization. The cases were not designed to be fully developed, multilayered profiles of selected firms. Rather, they were limited to on-site, in-depth interviews of a firm’s primary decision maker.

The case method was appropriate to the research design because: (1) the research questions concerned how and why a firm decides to internationalize; (2) controlling all relevant contextual variables across firms was not an option; and (3) the relevant time frame for the research was focused on present behavior. The research had both theory building and theory testing aspects. The richness of case study data potentially allowed for (1) discovering other driving forces not conceived of in the hypothesized framework, that is, the case studies could add to the hypothesized framework inductively, and (2) developing insights into how to fully operationalize the framework’s four factors. The multiple case studies also served as a test of the framework’s predictive power across a range of firm settings. To broaden the test, cases were selected that represented literal replications (e.g., predicting similar results in like situations) and theoretical replications (e.g., predicting contrasting results in dissimilar situations).
To create the proper contrast in case situations, cases where selected to cover four categories of firms: strictly domestic in focus (having never sold or marketed internationally); new entrants into foreign markets (foreign sales and marketing began within the past 3 years); experienced practitioners in foreign markets (international sales and marketing continuing for more than 3 years); and former participants in foreign markets. These categories captured fundamental differences in decision makers’ experiences with and attitudes about international markets. The framework would predict that the new entrants and experienced practitioners would exhibit positive responses to all four framework factors, while the former exporters and the strictly domestic firms would exhibit a negative response to at least one factor. The former exporters also offered an opportunity to contrast the conditions that led them to internationalize and then subsequently reverse their decision, that is, a change from all positives to at least one negative in regard to the framework’s four factors.

The protocol for selecting firms for the case study was based on a purposeful targeting of specific industries and types of firms. The objective of the protocol was to (a) target industries in the agri-food sector that demonstrated, in a relatively even distribution, the full range of the four categories of firms listed above, and (b) screen firms within these industries based on specific size and category criteria. In this way, the protocol controlled for two of the commonly cited explanatory variables in the internationalization literature: firm size and “industry effect”. With these two variables held constant, firms from the same industry and of similar size could be compared and their varied responses to essentially the same general market stimuli could be studied within the context of the proposed framework.

Based on these criteria, available data sets and directories were reviewed for their scope and depth of detail. Of these, Dun’s list of Michigan companies was by far the most comprehensive. Several screenings resulted in the selection of firms from two SIC classifications: Canned Fruits, Vegetables and Preserves (SIC 2033) and Food Products Machinery (SIC 3556). Based on a review of existing secondary data, these two industries provided a more even distribution of the four categories of firm responses. Out of the 66 firms listed by Dun finalists” was that two firms per SIC were identified per category of firms, yielding a $4 \times 4$ matrix of 16 firms (i.e., two firms per SIC for two different SICs for a total of four firms per category for four categories).

These 16 firms were contacted by mail and telephone to solicit their participation in this study. Ten of the 16 permitted on-site interviews, eight of which led to in-depth interviews with decision makers. The distribution of interviewees by position within the firm included six individuals who were either the Chief Executive Officer (CEO) or one of the firm’s founding partners, one general manager of sales, and one individual who was responsible for much of the general day-to-day administrative tasks of the firm, including all the logistics of international sales and marketing. All of the firms had been in business for over 10 years. The final distribution of case study firms by category and SIC codes was as follows:

one firm, SIC 2033, was a domestically oriented firm;
one firm, SIC 3556, was a new entrant into foreign markets;
four firms, all SIC 3556, were experienced, active exporters; and,
two firms, both SIC 2033, were former participants in foreign markets.
The protocol for the site visits followed the same set approach at all sites. The actual interviews were modeled after a format proposed by Patton (1987) for what he calls “depth interviewing using an interview guide”. For the eight case study interviews, the sought after depth of holistic understanding was the interviewee’s personal attitudes and opinions about the deciding factors concerning international marketing and sales of the firm’s products. The interview guide was developed to provide some minimal structure to the interview process. It included several screening questions about the firm (e.g., its size, marketing scope) and a set of open-ended questions concerning the driving forces and determining factors behind their opinions and choices about international marketing and sales. Considerable care was taken to avoid leading questions about the hypothesized factors of the framework.

4. Empirical findings of the case studies

Table 1 summarizes comparisons across the eight cases and four proposed conditions for globalization. As a summary observation, the results confirm the fundamental hypothesis of the framework: “Globalized firms have all positive responses to the four conditions, while domestic-focused firms do not. Conclusions and general themes from the case studies are summarized below by the four types of cases and across the four proposed necessary and sufficient conditions.”

4.1. The domestic firm case

The lone domestic firm was from SIC 2033, Canned Fruits and Vegetables. Three of the four conditions for globalizing demand, transformation advantage, and supportive decision rules were not present for this firm.

In regard to perceived demand, this firm was the only one of the eight interviewed that had never received an unsolicited order from a foreign buyer. Unsolicited orders from abroad are a common form of international sales for smaller firms. The literature also frequently asserts that these orders are the impetus for the globalization process. However, the firm was not likely to respond positively to such orders even if they had occurred. The decision maker

<table>
<thead>
<tr>
<th>Necessary conditions</th>
<th>Experienced active exporter ( (n = 4) )</th>
<th>New entrant ( (n = 1) )</th>
<th>Former participant ( (n = 2) )</th>
<th>Domestic ( (n = 1) )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived demand</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Perceived competitive advantages</td>
<td></td>
<td></td>
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<tr>
<td>In transformation costs</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>In transaction costs</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Motivated by decision rules</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
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</table>
contended that “they couldn’t keep up with the domestic demand as it was”. The firm in effect had no incentive to develop any perceptions of global demand opportunities.

In terms of transformation advantage, the firm marketed commodity products that were marginally differentiated from their competitors’ products. The decision maker did view the firm’s products as competitive on a price and especially on a quality basis domestically, but had not considered product competitiveness in global markets.

Although the firm had never made an international transaction, the decision maker did not perceive transaction advantage to be a concern. He felt that adequate strategies for managing transaction costs would be available if globalization were ever considered.

The firm’s decision rules were not supportive of globalizing. As already noted, domestic markets offered sufficient demand for the firm’s perceived needs. And due to “quality of life” concerns, there were no plans of expanding the business or increasing production capacity in anticipation of new and growing markets (international or otherwise). It is likely that the operative decision rules favoring domestic business opportunities would have been enough in and of themselves to prevent the globalization process.

4.2. The former exporter cases

The two former exporters were also from SIC 2033, Canned Fruits and Vegetables. In both instances, all four conditions had been met when exporting had been initiated but currently two of the four conditions (transformation advantage and supportive decision rules) were not present. The lack of these conditions had led to the decision to cease exporting.

Although unsolicited orders and actual marketing experience had brought both of these firms into globalization, the actual presence of demand was not enough to keep them in international markets. As with the purely domestic firm, existing domestic market potential offered more demand for their products than their firms would likely be able to meet.

Concerning competitive advantages in transforming, the two former exporters cited as reasons for changing their global strategy: (1) export “taxes” (e.g., tariffs, duties) and transportation costs priced them out of foreign markets and (2) taste and preferences, especially for food items, are country and culturally specific and their food products were best suited for the U.S. market. These two firms employ different product strategies resulting in different approaches for establishing competitive advantages in transformation. One firm produces a relatively undifferentiated commodity product while the other produces a highly differentiated product sold to a narrowly defined market niche. However, despite these differences, the nature of their products, in the context of an international market, is very similar. As producers of processed foods, both firms face the same uphill battle of acclimating customers in foreign markets to new and often unfamiliar foods. Both decision makers alluded to the challenge this gives to estimating potential demand in international markets. Both also questioned the appropriateness of a smaller firm trying to introduce and sell “American” food products into a foreign market.

Concerning competitive advantages in transacting, both decision makers asserted with confidence that their firms had and could handle most aspects of international transactions. Financial risks and tactical logistics were perceived as manageable. Such things as Letters of Credit, filling out paper work, maneuvering through customs and working with different
languages were not perceived as barriers to international sales; these things may add costs and complications to the sales, but they were not perceived as prohibitive. If there were a concern, it was an uncertainty about how to strategically create and sustain international business relationships. These relationships were considered difficult to establish with foreign customers. Former exporters appeared to have had effective strategies for managing transaction costs when they had been exporting. They noted the importance of having a “company representative” living and working locally in the targeted foreign market, and reported at least some experience in granting credit (vs. only doing sales by Letters of Credit) to international customers. Also, one of the former exporters relayed a personal twist to a “beach-head-springboard” strategy: initial market presence was established through U.S. military PX stores (i.e., the beach-head), and from this, the firm had been able to springboard into a wider market presence in a specific foreign market.

Decision rules were, however, not supportive of globalization in the end. The two former participants acknowledged that international markets offered potential sales but they both contended that there were “riper fruits on lower branches”, an excellent empirical example of a “rule-of-thumb” decision rule. In other words, the two former exporters felt that their firms were well short of exploiting the full potential of domestic markets and until that had been accomplished, export markets were an unnecessary and more complicated challenge relative to available domestic opportunities. Implicit within this rule of thumb is the economic reality that a firm should not globalize when the net marginal revenue of additional international sales is less than the net marginal revenue of additional domestic sales.

4.3. The new entrant and experienced exporter cases

Five of the cases represented firms that were actively exporting—one firm that was a new entrant (less than 3 years of experience) and four firms that were experienced (more than 3 years). All five firms were from SIC 3556, Food Products Machinery. As hypothesized, the four conditions for internationalization were all positive for these firms. The new entrant is included with the experienced firms because this firm’s decision maker expressed views so similar to the experienced exporters that separating the analysis would have proved largely redundant. One distinguishing characteristic of the new entrant was that the firm had actually “dabbled” in international sales for more than 3 years before actually entering. The firm allowed 4 years to pass between its first and second international sale, and another 4 years between its second and third. This third sale was viewed by the firm as marking its true entry into global markets because it represented a proactive rather than merely reactive global sales effort.

Concerning demand, all five active exporters regularly received sales inquiries from both domestic and international customers, although the decision makers noted that the quality of these inquiries varied greatly in terms of actual sales potential (i.e., some inquires were very speculative in nature while others were detailed requests with specifications for a particular product and/or service). All five firms routinely pursued new market opportunities by participating in trade shows and advertising in trade journals and producer directories. These decision makers also felt that word-of-mouth generated many of the sales inquires that they received.
Concerning competitive advantages in transforming, all five firms marketed and sold highly differentiated, technically sophisticated (and sometimes patented) equipment. The decision makers asserted that their firms either made a superior "mouse trap" or, in some cases, made the only mouse trap in the marketplace. All five decision makers believed that their product design contributed significantly to the marketability of their products, and they all felt that they had a competitive advantage in the marketplace because of superior or unique product design, product features, and/or support services.

Concerning competitive advantages in transacting in international markets, all five firms in this SIC had international contacts and some form of personal market presence in targeted foreign markets. All of the decision makers emphasized the importance of having someone based in the country (or at least the region) of the target market(s). All of the firms had established, either through direct hire or contracting with a "local" firm in a foreign market, a distributorship and/or distribution system in at least one other country. The decision makers contended that these local contacts enhanced, and in some cases were the sole means of creating, market access and transaction competitiveness in the foreign market.

More specifically for the four experienced exporters, there were important differences across the firms in how they have attempted to establish competitive advantages in transacting. One firm was founded for the explicit purpose of accessing a foreign market. This Michigan-based firm was created by a European entrepreneur seeking access to the North American market prior to the Uruguay Round of GATT. Although legally and financially independent of its "sister" company in Europe, this firm intentionally maintained close ties with its "sibling" by sharing technologies and customers. Links were also maintained through a jointly established product and/or service line such that some products and/or services were only available at one of the sites—either just through the Michigan-based firm or just through the sister company in Europe. The decision maker believed that these close relations strengthened the firm's market position, both globally and with specifically targeted markets in the Western Hemisphere.

Several firms used consolidators as one way to export their products. Consolidators would "package" a requested array of equipment, products and/or services for a foreign buyer. The individual firms, by selling to U.S.-based consolidators, were able to market to international firms and/or foreign markets which they otherwise may not have been able to contact. One firm took an alternative approach to consolidation, at least for one of its product lines. It chose to internalize the consolidator's role and marketed its own complete "package" of a product line, comprised almost entirely of its own products.

Two firms described an effective strategy for gaining international market access. As clients globalized their production activities, these two firms would "ride in on a client's coat-tail" by supplying products and/or services for these international ventures. And once these firms had their products in place, they would use this initial market presence to springboard into that foreign market. The decision makers explained that one of the most successful means for selling a product to an overseas client was to have a sample of what they sold already in country and in use. This physical presence was perceived as the most effective way to overcome language and cultural barriers since potential customers had much more confidence in purchasing a product or service which they had already seen "up and running" in their home country.
Concerning the decision rules employed by the five active exporters, the decision makers all were quick to acknowledge that potential for profitability was an important dimension of whether or not they would act on an unsolicited order or other export opportunities. However, profitability was not a sufficient motivator in and of itself. How a given opportunity “fit” within the overall workload also was important. Likewise, the pressures on personal time, which expanded production in response to new market opportunities would generate, were also taken into consideration. Two of the decision makers explicitly discussed how they valued time away from the office and that some export opportunities, even if perceived to be profitable, would not be pursued simply because these decision makers did not believe the personal sacrifices warranted servicing the market demand. In other words, their decision rules involved some kind of implicit benefit–cost assessment of the trade-offs between enhanced firm performance and preserving personal time.

Another supportive aspect of the decision rules for three of the exporting firms was the decision makers’ contention that there was no other market than a global one, and they made little to no distinction across geographic boundaries (e.g., U.S. vs. foreign). They and their customers were simply all part of one, world-wide market, and consequently, a sale was just a sale, regardless of its geographic destination. For these firms, being global had become completely internal to their business value set.

The new entrant firm was distinguished in one respect from the four experienced firms in regard to its decision rule. In this decision maker’s view, successfully establishing a presence in international markets was the only way to assure the long term survival of his firm. The market environment had changed, and domestic markets alone could no longer provide needed sales. For this firm, the decision rules identified globalization as a basic firm survival strategy.

4.4. Comparisons across SICs

An additional way of gaining insights into the case findings arises from shifting the analysis to comparisons between firms from the two SIC codes in the study. All of the cases with active exporters are firms from SIC 3556, Food Machinery Products, and all domestic-focused firms are from SIC 2033, Canned Fruits and Vegetables. One of the clear differences between the two SICs is the nature of the products and the implications that this has for demand. In the context of these cases, “the nature of the product” refers to the relative cultural neutrality of the products. Products in the SIC 3556, basically machines, have a relatively neutral cultural nature, and their use can transcend most contemporary cultural settings without conflicting with local tastes, preferences, customs and/or social mores. On the other hand, products in the SIC 2033, basically food items, are not neutral across cultural settings. Although there are an ample number of examples where “American-style” foods have been introduced and a sustainable demand has been created in foreign markets (e.g., Kellogg’s® breakfast cereal, McDonald’s® fast foods), most of these successes depended upon long time horizons and deep financial pockets that permitted customers to learn and acquire new tastes and preferences. Smaller food firms may not be able to sustain a long introduction period and create a sales volume that grows beyond the small niche markets for novelty foods and “American” products. However, the ability to generalize this association
between the nature of the product and globalization, and the suggested causes for this association can only be confirmed or refuted by further empirical testing.

A second difference across the two SICs was in the decision makers’ perceptions about the type of competition that their firms faced in the marketplace. In particular, the two subsets of decision makers differed in their perceptions about the number of competing substitutes in the market and in the number of firms in direct competition with their own firms. In SIC 3556, Food Products Machinery, the general perception was that there were few direct competitors and few substitutes in the market for their own products. In SIC 2033, Canned Fruits and Vegetables, the opposite was true; decision makers felt that they were in direct competition with many competitors and many substitutes in the market.

This difference was reflected in the decision makers’ general attitudes about and comparisons between domestic and international markets. For the five cases in SIC 3556, international markets were perceived as a means for extending their oligopolistic market power. In these decision makers’ minds, their firms offer the best choice out of a small set of “mouse traps” (or, in some cases the only mouse trap) in both the domestic and international markets, and international sales simply indicated that international customers had learned what was already known by domestic customers—given certain needs, the only (or best) place to get the product for those needs is to buy from the SIC 3556 case study firm. For the three SIC 2033 cases, international markets were perceived as a possible alternative to highly competitive domestic markets. However, as an alternative, international markets were not seen as less competitive but rather as offering a larger market in which to compete (i.e., if greater sales volume were desired, international markets might be the outlet for attaining this increase).

4.5. Findings concerning individual framework conditions

The four framework conditions have been used to organize the discussion of the four categories of firm type. What findings can be drawn from the full set of cases about these four conditions?

4.5.1. Demand

The case studies confirm the proposition that demand is a driving force behind the globalization process. However, to fully understand the influence demand has on the decision to globalize, “demand” as a concept must be re-constructed. Salient dimensions of demand that surfaced during the case studies include latent demand, a decision maker’s level of awareness of demand, effective demand, and relative demand.

As decision makers consider market opportunities, one way of specifying these opportunities is in terms of a potential market’s latent demand. The case studies indicated that perceptions about undeveloped, untapped markets influenced decisions. For example, a recognition that a given country had a large population and was a net food importer was enough to suggest to some decision makers that there is “latent” demand for the firm’s products in that country. Such a perception appears to be positively associated with decisions to enter global markets.

Information flows are imperfect in international markets. Knowing that there is demand in international markets, latent or otherwise, is also associated with the decision to globalize;
if decision makers are not informed about demand, they cannot act upon it. As has been noted in the literature, monitoring if and how often a firm receives unsolicited orders from abroad is one way of measuring a firm’s level of awareness about demand in international markets. But the quality of unsolicited sales inquires vary considerably in terms of actual sales potential. Decision makers must make qualitative judgments about the likelihood a given sales inquiry will translate into a completed sale. Hence, being “aware of demand” implies that decision makers are able to discern “effective” demand, and can filter out frivolous or other unrealistic requests. In this way, effective demand is also associated with the decision to globalize, just as actual effective demand experienced by the firm once it begins marketing internationally is associated with the decision to continue to export.

Finally, strong domestic demand is negatively associated with the decision to globalize. This implies that relative demand, in terms of demand in local markets relative to demand in international markets, also influences the decision to market and sell abroad.

4.5.2. Competitive advantages in transacting

Like demand, the case studies confirm the proposition that competitive advantages in transacting are a driving force behind the globalization process. But the role of transaction costs in the decision to globalize is better understood if a distinction is made between (1) the tactical management of the logistics of international transactions and (2) the creation of competitive advantage through the strategic management of international transactions. Logistics (e.g., translating labels into a second language, sales by Letters of Credit, paperwork associated with Customs) had little to no influence on a firm’s decision about whether or not to globalize. But the strategic creation of competitive advantage through transacting was associated with both the initial decision to globalize and the firm’s ability to sustain their market presence once the globalization commitment was made. Of particular importance was the ability to use a variety of contractual agreements and relationships to (1) gain access to targeted international markets, and (2) contain the overall costs of delivering the product to the market so that final prices were not raised to prohibitive, noncompetitive levels.

4.5.3. Competitive advantages in transforming

The case studies also confirmed that a decision maker’s perceptions about the firm’s products and the competitive advantages resulting from the product’s physical attributes are associated with the decision to globalize. In particular, a perception that a product has a competitive advantage resulting from its design or features was positively associated with the decision when this advantage was perceived to exist in a targeted global market. The perception that the advantage only existed in domestic markets was negatively associated with globalization. A strategy of marketing highly differentiated products also was positively associated with the decision to globalize, although this association was not universally true (i.e., one case had successfully marketed an undifferentiated commodity product in global markets). And finally, the cultural “neutrality” of a product also influenced a firm’s decision to globalize. Firms marketing a product that readily transferred beyond its original domestic cultural setting were more likely to be involved in global markets.
4.5.4. Decision rules
The case studies likewise confirmed the proposition that decision rules are a final critical condition. Two general decision rules appeared to guide most of the choices being made about global markets: (1) adequacy of the anticipated profitability of a given global venture (i.e., satisficing rather than maximizing behavior); and (2) a broader benefit–cost assessment that included opportunity costs and trade-offs among potential profits, firm growth from international markets, potential loss of personal time, and diminished focus on other ventures and initiatives of the firm.

5. Recommendations for managers

Managers of smaller agri-food firms can use the findings of the overall analysis to help them make more informed decisions about global marketing. The case study findings provide initial confirmation that the globalization process is driven by a limited number of independent determinants—namely demand, competitive advantages and operative decision rules specific to the firm. If a manager would like to begin exporting, these findings suggest that attention must first focus on these determinants.

For example, with an unsolicited order, the manager should attempt to assess the sales potential of both the inquiring buyer and the latent market potential of that buyer’s domestic market. Will the sale be a one-time event or will it evolve into recurring orders? In order to spread the costs of learning to export to a particular country, does the potential to develop a broader client base exist in that country?

Along with these demand issues, the manager needs to assess the firm’s ability to create and sustain competitive advantages in these markets. Determining why the potential buyer is soliciting a foreign supplier and what product characteristics specific to the manager’s products led to the unsolicited sales inquiry can be means for assessing potential competitive advantages in transformation. Identifying other firms that have exported to the potential buyer’s country and the type of contractual agreements with which the buyer is familiar can be means for assessing potential competitive advantages in transacting.

Finally, the manager should assess how well the potential sales fit with the overall objectives of the firm, that is, does filling the export sale meet the objectives and performance criteria used by the manager? After all, not all sales are the same.

An alternative “mode of entry” into global markets is to monitor the marketing practices of current customers. Identifying current customers that are themselves entering global markets is a key first step for a manager interested in international markets. By continuing to supply customers as they globalize, a manager can position his or her firm to “ride the coattails” of customers into new, global markets.

If a manager would like to sustain export activities already initiated, these findings suggest that efforts should focus on maintaining and enhancing the firm’s competitive advantages in its targeted international markets. Examples of these types of strategies include: (1) using the established “beach-head” to gain the confidence of other potential customers, that is, a machine that is “up and running” or a food product that can be tasted in-country is a much more competitive sales message than a catalog picture with a written
description; and (2) building on lessons learned about what types of contractual agreements work within a given market’s context as contracts are negotiated with new customers, that is, the manager must see each export sale as a learning experience that can be drawn upon to create competitive advantages in managing future transactions and their costs.

6. Recommendations for policy makers

Policy planners can use these findings to gain a greater understanding of their potential role in promoting global marketing. First, policy prescriptions that assert all firms should globalize are ill-advised because globalization is not sustainable without specific conditions in place. Second, policies can facilitate the creation of competitive advantages in both transformation and transacting, relative to producers in other states, other exporting countries and the home countries of targeted export markets. Likewise, policies and programs can be implemented that enhance both demand for products and an awareness of this demand.

A limited set of specific examples includes: (1) government agencies as information clearing houses that do market opportunity scans of global markets and that link companies who are considering exporting to a given country with other companies (particularly those elsewhere in the same supply chain) already doing business there; (2) export enhancement programs that target smaller firms to encourage them to develop demand in international markets and sustain these smaller firms during start-up periods as they create a client-base; and (3) training programs that educate managers of smaller firms in how to assess the three driving forces within the context of their firms and to formulate strategies and tactics for globalizing.

7. Conclusions

The results of the eight case interviews provide confirmation of the proposition that firm-specific demand, competitive advantages in transforming, and competitive advantages in transacting are pivotal determinants of the globalization process. The decision makers from the eight case studies do think in terms of demand and competitive advantages as they consider international market opportunities. Demand must be perceived to exist. The firm’s product must have a competitive edge over rivals. The relationship and contracting costs of the international transaction must not be prohibitive. Further, a firm’s general set of priorities and motivations, as represented by their decision rules, has an important influence on the decision to globalize. A desire to “grow the firm” and the market outlook of the decision makers (e.g., one global market vs. a foreign/domestic dichotomous view of the market) are examples of possible representations of informal “rules of thumb” that guide decision making in smaller firms. Finally, there were no other critical elements or factors related to the firms’ globalization decision processes that could not be captured by the four conditions stipulated in the model. Smaller agri-food firms were global when all four conditions were positive, and they were not global when some condition was negative.
One limitation of the study is that the set of eight cases is less than complete when considering all possible combinations of positive and negative states across the four conditions, that is, there are missing literal and theoretical replications. Finding four more cases in which each of the possible one-negative-condition states are represented would provide additional strong confirmation of the framework’s validity. The absence of these cases does limit the analytic generalization of the framework. However, the eight cases provide a reasonably strong start to validating the framework while recognition must be made that additional targeted case work would add to the framework’s testing.

In regard to the secondary goal of presenting an appropriate method for reporting multiple case study findings, the article hopefully shows that multiple case research can be formatted into an acceptable journal presentation. The contextual richness and data currency of case based research adds significantly to the bundle of research tools available for agribusiness scholarship.

Notes

1. Consistent with much of the past literature in this area, these categories emphasize exporting as the fundamental evidence of globalization. As defined earlier, globalization is a broader process than simply exporting. However, exporting was the primary means of “going global” for the smaller firms of interest in this study.

References


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