

What Entrepreneurs and Small Business Owners Can Do to Increase Their Chances of Success in the Global Economy

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Executive Summary

- Advances in technology, communications, and transportation have transformed the world into a global village, and small and medium-size enterprises (SMEs) can take advantage of this.
- Beyond any short-term gains they may make, SMEs also gain experience in performing on a larger stage.
- Entrepreneurs and SMEs often go global in response to the state of their domestic market environment.
- To be successful, SME managers and entrepreneurs who engage in international trade must demonstrate high levels of passion, motivation, competence, and advocacy support.
- Development of an international perspective, or *global mindset*, facilitates engagement in international business.
- From a practical perspective, entrepreneurs and SME managers must broaden their horizons and sharpen their skills to successfully engage with the international arena.

Introduction

Entrepreneurs and small business owners are motivated to solve problems or deliver services better, faster, cheaper than others in the market. Entrepreneurs harness creativity and innovation to seize opportunities and offer alternatives in the marketplace. Successful entrepreneurs manage risk by closely monitoring business processes and financial obligations, as well as by focusing intently on their market and the challenges of building market share. With democracy encircling the globe and once-rigid barriers to free trade being eroded, the entrepreneur in many industry sectors seeks opportunities beyond his/her local region or country in a worldwide market. Adopting a global strategy can enable a small company to enhance its growth in the face of increased competition. In some instances, a global strategy is necessary, especially when facing competition from abroad. Today's more open world business environment is not risk-free; indeed, no market strategy is risk-free. Small and medium-size enterprises (SMEs) must recognize that doing business internationally involves added dimensions of uncertainty and risk, such as fluctuation in world currencies, global (regional) economic and political unrest, and inconsistencies in the global supply chain.

The US Small Business Administration estimates that approximately 25% of all US export volume (in dollars) is attributable to small businesses.¹ In terms of the number of US companies engaged in international trade, "97 percent of all exporters are small and medium size companies."² A recent survey of SME CEOs revealed that 56% look favorably on engaging in international business, with fewer than 20% considering it a threat.³ Among countries in geographical proximity, as in Europe, the prevalence in terms of both the value of international trade and participation by SMEs is infinitely greater. It must be remembered that international trade is a two-way street. Indeed, import activity among American companies is far greater than export activity, a fact that shows up in the year-on-year trade deficits recorded by the United States in recent decades.

International Trade: Growth and Challenges

The recent acceleration of international trade provides greater opportunities for SMEs. Government efforts around the world promote and assist small businesses in expanding the value of their international operations. Advances in technology, communications, and transportation have transformed the world into a global village. SMEs can penetrate markets by relying on the ubiquity of telecommunications, increasing access to the global supply chain, and engaging with world markets. Language, once a barrier to small firms in the international arena, is no longer an issue, with the widespread acceptability of English as the global

language of business. The growth of trade alliances, such as NAFTA, CAFTA, ASEAN, and Mercosur, the expansion of the European Union, and efforts to consolidate currencies across national boundaries, such as the adoption of the euro by a dozen Western European countries and of the US dollar in Ecuador facilitate integration in the international community. The sheer growth of China, India, Brazil, and Russia, as well as other states of the former Soviet Union, provides both great opportunities and risks for SMEs around the globe. Global telecommunications have greatly reduced the technical barriers to trade, with even the smallest firms able to operate in a virtual 24/7, 24 time-zone environment.

The key to success for SMEs, however, is learning how to overcome the many *internal* barriers that exist. SMEs face a lack of resources related to acquiring and understanding information, managerial knowledge and experience, short time horizons, and inadequate planning.⁴

Yet, despite such limitations, many SMEs engage in international trade with varying degrees of success. At best, international trade activities can be risky for all firms due to regional and global political instability, exchange rate fluctuations, climatic and other environmental uncertainties, the pace of change in telecommunications and transportation, shifting markets, and new entrants (competition) in those markets. Some understanding of these factors and adopting the right mode and timing of internationalization—for example, whether to export directly or through intermediaries—can minimize the inherent risks. The worldwide economic downturn in 2007–08 presented a particularly difficult set of circumstances for SMEs around the world.

Firms that view their initial foray into international trade as part of a business learning curve or as an investment in their future are more apt to succeed in the long term, especially compared to firms that are monetarily or psychologically unprepared or are unwilling to adopt a long-range view.⁵ Indeed, research has long suggested that, for firms that are developing a capacity to operate abroad, success in the international arena depends on proceeding gradually. This gradualism is often referred to as staged or incremental internationalization.⁶ Enhanced knowledge and an incremental approach, however, are not sufficient for success, particularly for SMEs with limited resources. SME managers also need to develop an outlook based on contextual factors⁷ and their inherent operating environment, industry structure, and marketing strategy.⁸

Beyond the short-term gains, SME managers also gain confidence and experience by performing on a larger stage. Horizons are broadened, and they become sensitive to economic and geopolitical changes to which they formerly paid scant attention. This learning can affect manager's perspectives and strategies more than short-term financial success, reinforcing the decision to engage in international trade. As SME managers gain more experience, their knowledge increases, enhancing their confidence to further expand international activities. This learning not only provides reassurance, but it also reinforces their decision-making.⁹

As a group SMEs differ from large, established firms in terms of complexity and formality. Small, entrepreneurial firms are generally more flexible in developing their strategies and are swift to embrace the global environment as a learning opportunity. However, SMEs will only be successful if they are able to manage the multitude of dimensions associated with globalization. For example, success in the international arena correlates with an ability to engage in highly complex relationships.¹⁰ These may include the establishment of subsidiaries and joint ventures, or the initiation of subcontracting and materials importation as core elements of the business plan. SMEs learn and benefit from such activities, but they become successful *only* if they take advantage of them. Mastering the learning curve reduces the complexity of doing business globally, enhancing the prospects of financial success.

Engaging the International Arena and Developing a Global Mindset

Entrepreneurs and SMEs may go global in response to the state of their domestic market environment.¹¹ If domestic conditions are good, SME managers are less likely to take on the risks associated with overseas activity. Conversely, if there are few prospects for growth in the domestic market, they have more inclination to accept such risks. In going global, SME managers tend to choose an entry mode that minimizes risk. The least risky, least costly, and most frequent entry mode is the export of finished goods. More complicated modes involve sourcing, manufacturing, equity, and partnership arrangements. However, SME managers will engage in more complex and costly entry modes as an alternative to simply exporting if they need to

exercise greater control over foreign resource availability or over their access to foreign markets. Similar strategies may be followed in sourcing (importing) raw materials or components for further fabrication, or finished products for direct sale.

While these decisions are the result of some strategic thinking, the underlying basis for international trade activity and the degree to which it is pursued are related more to economic necessity than to opportunity. Although a high percentage of SMEs in developed economies engage in some form of international business, such activity is not necessarily maintained on a continuous basis. Firms that are only marginally engaged in international activities tend to disengage, often due to a “lack of strategic planning” and commitment.¹² Such firms may redirect their efforts back to their domestic markets when the business climate is once again supportive. Increasingly, though, this can be a perilous decision, leading to competitive disadvantage in their home markets.

Sustainable international engagement and success require:

- Understanding the market for one’s products or services;
- Delivering quality in the design, manufacture, and distribution of products or services;
- Demonstrating a commitment to outstanding customer service;
- Maintaining capable and dedicated personnel;
- Operating with financial and ethical integrity.

Not surprisingly, these are the same factors that are essential for success in the domestic market. SMEs engaging in international trade must demonstrate high levels of passion, motivation, competence, and support in order to succeed.¹³ Indeed, it is as much the “soft side” of business engagement that leads to success as the “hard side” of technical know-how. Balancing these factors is essential for success. If the entrepreneur or SME owner is not personally able to provide this balance, he or she must be prepared to share the responsibility for the success of the firm with others.

Firms can be characterized as either “born global” or “late starters.” A born global firm is one in which the entrepreneur engages in international trade from the onset of operations. For these entrepreneurs, *being global* is simply their *state of being*. The late starter is an existing firm that begins to engage in international business some time after inception. The development of an international perspective, or *global mindset*, provides a foundation and supporting commitment to embrace the global market as permanent player. The *global mindset* is characterized by a realization that domestic boundaries are not a limit and that the entrepreneur must adopt a virtual “locus of control” beyond his or her immediate environment. By adopting this perspective, entrepreneurs and SMEs enhance their potential for success. External enablers, such as the European Union, NAFTA, CAFTA, Mercosur, ASEAN, and other free-trade arrangements among countries, set the stage for engagement. SMEs operating with a *global mindset* will develop a competitive edge over their domestic competitors as a result of the knowledge gained from international trading partners, as well as their broadened perceptions and attitudes.¹⁴

Case Study

The Great American Hanger Company¹⁵

The Great American Hanger Company was founded by 25-year-old entrepreneur Devon Rifkin in 1999. Rifkin’s vision was to create a company dedicated solely to providing solutions for clothes-hanging needs. The company supplies a broad range of hanger products in both wood and metal, some with fabric overlays, to leading hotels and also sells directly to wealthy individuals worldwide. The company grew from an idea to a US\$100 million firm in less than 10 years.

Design, marketing, and distribution of an extensive product line is coordinated at the company’s corporate headquarters in Miami, Florida. Manufacturing, however, takes place at several sites in Asia, initially in India and now also in China. Rifkin established his first Asian link over the internet through the sourcing website Alibaba.com. The Wooden Enterprises and Trading Cooperative in India was able to produce his wooden and metal designs with high quality at low cost, enabling Rifkin to grow his company rapidly by being highly competitive.

The Great American Hanger Company now uses Hong Kong as its sourcing hub. Rifkin is able to meet suppliers, view finished products, and schedule follow-up visits to manufacturing facilities in a time- and cost-effective manner. He was quoted in the *Hong Kong Trader* as crediting much of the growth and success of his company to this strategy: “The air that we breathe, so to speak, has everything to do with our suppliers and our supply from China, and our relations through Hong Kong as the door that opens for us to the rest of our supply world. I give Hong Kong and China single-handedly the credit for allowing me the opportunity to grow my business as successfully as we have thus far.”

Once the supply chain was firmly established, the key to success has been the focus on a single product category—hangers. Growth was based on marketing to selective targets—hotels, retail stores, and now celebrities and other wealthy individuals—both domestically and internationally. This is a good prescription for any entrepreneur to follow.

Making It Happen

From a practical perspective, entrepreneurs must broaden their horizons and sharpen their skills if they are to engage successfully in the international arena. They will have already navigated barriers to entering their own domestic market, as well as economic, social and political hazards. They now must learn to navigate international barriers, such as tariffs, quotas, and embargos, along with the economic, political, social, and cultural challenges associated with doing business across oceans, continents, and hemispheres. Specific points that entrepreneurs and SME managers must consider are:

- Research the feasibility of engaging in international business.
- Assess the firm’s competitive advantage in target countries or regions.
- Calculate the market value of the firm’s products or services.
- Establish the true financial costs associated with importing and/or exporting.
- Be mindful of differing business, social, political, and cultural mores.
- Be cognizant of legal standards to safeguard investments and intellectual property.
- Preplan activities, leaving no loose ends to be determined later.
- Develop strong relationships with foreign partners, employees, and clients.
- Adopt a *global mindset* for themselves and their firm.
- Transform the firm into a global enterprise.

As in all business enterprises, a key factor associated with both strategy and operations is the leaders, managers, and rank and file personnel. People make the all difference. Thus, it is more than just necessity and opportunity that drive the internationalization of SMEs; it is also the wisdom and familiarity that can be acquired through the desire to expand beyond local and domestic environments. Today’s entrepreneurs are highly educated; they manage risk by gaining understanding and developing experience. To be successful, they must think global and act global.

More Info

Websites:

- There are many useful resources that entrepreneurs and owners of SMEs can readily access. Articles, books, and information guides are produced by academics and practitioners alike. In addition, governmental, nongovernmental agencies, organizations, and consulting groups provide valuable information through their websites and web-based newsletters. The following listing provides some resources that will be useful to entrepreneurs and owners of SMEs in the United States and around the globe.
- Alibaba is the world’s leading B2B e-commerce company serving SMEs in China and around the world: www.alibaba.com
- Entrepreneur Press is a provider of books, information, and guidance for entrepreneurs and small business on all aspects of business: www.entrepreneurpress.com
- Entrepreneurship.org is the website of the Ewing Marion Kaufman Foundation and the US Commerce Department’s International Trade Administration’s public–private partnership. The focus is on encouraging best practices in entrepreneurial leadership, to promote economic growth around the

world, and to assist all nations in developing the environment to allow entrepreneurs to organize and operate business ventures, create wealth, and employ people: www.entrepreneurship.org

- International Entrepreneurship provides entrepreneurs from around the world with access to import and export information, general business data, financing sources, and entrepreneurial success stories for over 100 countries. Links to domestic entrepreneur help sites are provided for each country: www.internationalentrepreneurship.com
- MarketResearch.com has the world's largest and continuously updated collection of market research, with more than 160,000 market research reports from over 600 leading global publishers. Country reports provide strategic insight into geographic, political, and business environments and their effects on economic performance and potential: www.marketresearch.com
- The Indus Entrepreneurs' (TiE) mission is to foster conscious entrepreneurship globally by educating, mentoring, and networking: www.tie.org
- World Franchising's website provides a comprehensive directory of franchise opportunities, leading you to the most up-to-date franchise information available on the internet: www.worldfranchising.com

Notes

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See Also

Thinkers

- [Michael Eugene Porter](#)

Finance Library

- [Balanced Scorecard: Translating Strategy into Action](#)

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