RENEWAL OF THE FIRM THROUGH INTERNATIONAL STRATEGIES

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The entry and progress of firms in international markets have been the subject of much scrutiny from governments and economic commentators for 25 years. Some commentators see the failure to compete successfully on the international markets as partly explained by our economic heritage – "Irish enterprise is in many ways poorly equipped for the task of competing in world markets. This is partly a result of inadequate inducement to grow and partly an inheritance from the days when Irish firms were protected from foreign competition." [McKinsey, 1975]. Others have recommended that marketing should be at the forefront of government policy – "The central objective of marketing and economic policy for the remainder of the decade and into the 1990s must be to improve the ability of Irish firms . . . to compete on an international scale, to identify opportunity and to respond to that opportunity." [Consultative Committee on Marketing, 1984].

Renewing Traditional Industry Through Internationalisation Strategies

Business growth since the early 1970s has been fuelled by growth in international markets, but it has come mainly from the newer high technology industries. The disparity between the performance of the newer industries and traditional industries has led to the phrase "Dual Economy" being used to describe Ireland's industrial structure. Irish traditional industry has suffered a major decline since joining the EEC. Policy during the period of entry (late 60s) and the transition period to free trade (until the mid-70s) was designed to give indigenous firms sufficient time to re-orientate and to build up the necessary competitive strengths required to operate successfully in free trade. Reasons given as to why traditional industry has not made the transition to an internationally-oriented sector include the insurmountable barriers to entry facing latecomers into foreign markets [Blackwell and O'Malley, 1984], the residual tariff structure of the early 1970s and under-compensating export incentives, all of which led to a disincentive to export [McAleese, 1971; 1978]. These explanations may be understood more fully by examining and analysing the failure of industry to re-orientate itself to free trade and to successfully move into international markets.

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Research Methods

This article is based on a study which examined the impact of EEC entry on traditional Irish industry and the attempts made to adapt to the competitive structures of free trade [O'Mahony, 1984]. The main hypothesis put forward is that Irish firms in general were ill-equipped to successfully implement a strategy of internationsalisation, and that going international did not fit the prescriptions necessary for dealing with sudden and dramatic change. As key industries in the traditional sector, the clothing and footwear sectors were chosen for empirical study on a longitudinal basis, covering the period 1965-1984. In order to measure the before-and-after effects of the environmental change due to EEC entry, the study examined three periods:

1. Preparations for entry to EEC: 1965-1971.
2. Transition period: 1971-1976.
3. Fully competitive trading environment: 1977-1984.

In testing this hypothesis the study examined:

(a) The prevailing conditions of management and industry of the period, and the state of preparedness for activating a strategy of change;
(b) The nature of internationalisation, the company characteristics required to implement it and to identify barriers to going international, in particular the time factors involved;
(c) The range of strategy options which were developed both from previous theoretical work conducted in the area of management of change, and from the options suggested by policy makers and economists of the period, which included an export strategy;
(d) The range of responses and adaptations made by companies during the period of transition and after. Strategy responses were grouped into sets, and common characteristics of success and failure were identified;
(e) Each strategic response in respect of its suitability in dealing with drastic environmental change, taking account of actual company experience.

In addition, it was necessary to examine the State's record of industrial development as the context for prevailing management and Government attitudes of the time. The data were collected in three ways:

(a) *Documentary Research:* Use of the databases and report findings and studies carried out in the 1960s and 1970s which were relevant to the project. In addition, published information about company and industry performance during the same period was used.
(b) *Postal Survey:* A short questionnaire was sent to a sample of 25 clothing and footwear manufacturers. Twenty complete responses were obtained.

(c) *Field Research:* Interviews were conducted with the managers of 10 firms involved in the two sectors during the period. In addition, industry experts from the IDA, CTT, the Irish Goods Council, the Department of Industry, Trade, Commerce and Tourism and the Apparel Industries Federation were interviewed for their opinions on how specific sectors and companies fared.

Internationalisation and the Management of Change

Discontinuity, the complete break between prior experience of change and present turbulence, rarely occurs without some form of advance warning or strategic signal [Normann, 1971; Murray, 1982]. When a firm becomes aware of oncoming change, it can still call upon familiar resources and skills to identify and contain the problem. Very often it is the firm's procrastination or inability to perceive a need for action that moves the crisis along to a position where response calls for action beyond the scope of the organisation's previous experience. A discontinuity may be defined, therefore, as much by the myopia of the firm as by the dramatic change in the external environment. A company's ability to respond will be a function of in-house skills and resources and the extent to which these have been coordinated by management. Findings from the literature on management of change are summarised below (Table 1). The factors listed are reflected in the adaptation strategy adopted by the firm.

Table 1: *Determinants of the Firm's Ability to Respond to Environmental Change*

Factors	Composition
1. Management Skills	– Recognition of threat – Ability to anticipate consequences – Openness to alternative future strategies – Objective understanding of nature of the problem plus realistic assessment of own ability in overcoming problem
2. Competitive Advantages	– Product resources – Financial resources – Marketing resources – Managerial resources
3. Previous Operating Experience	– Learning ability – Time-lag in learning mechanisms
4. Resource Slack	– Sufficient resource allocation
5. Anticipation of change	– Amount of time firm has at its disposal to restore balance
6. Discontinuinty	– Magnitude of disparity between conditions of the change and those of firms prior operating experience

Source: Adapted from F. O'Mahony (1984).

A major factor in the establishment of international markets is that it occurs over time on an incremental basis. New market activity characteristically places the firm in a position of high uncertainty and risk and it is only through the growth of knowledge of a market, and gradually increasing commitment of time and resources, that the perceived level of risk falls to more acceptable levels [Johanson and Vahlne, 1977; Bilkey, 1978; Bilkey and Tesar, 1977; Cavusgil and Nevin, 1981; Wiedersheim-Paul, Olson and Welch, 1978]. These schools of thought argue that movement into international markets should initially be an ancillary activity, supported by the main operations of the firm. Through time and learning, the new markets will develop to a stage where the company can expect a more satisfactory return on invested resources.

The development of an international strategy, therefore, is best managed from a position of strength, when the firm is not immediately dependent on its new source of income, rather than from a position of diminished resources, as in the case where the new markets are needed to compensate for reduced earnings from a weakened domestic base. The time lag involved in the establishment of new markets and international management experience, may make international diversification an inappropriate response to the need for a rapid solution to unanticipated dramatic change in the company's home environment.

Research Results

Clothing and footwear, the two sectors studied, were among the sectors most affected by the impact of free trade among EEC member states. Though it is difficult to generalise, certain common factors have emerged from the findings:

1. Both sectors were affected by a magnitude of change which may be described as discontinuous.
2. The impact and consequences of the discontinuity was fuelled by the fact that many firms within each sector did not recognise or anticipate the meaning of strategic signals and the consequent threats to survival.
3. As a result most firms in these sectors did not prepare adequately for the oncoming change.
4. Companies were significantly influenced by prior industrial and corporate history (protected markets) which encouraged conservatism, risk aversion and incapacity to deal with change.
5. Firms had not developed nor acquired the marketing skills required for successful penetration of new markets.
6. Adaptation and re-equipment measures carried out in the early

1970s did not significantly increase the ability of these sectors to compete.

Management of discontinuous change is measured by looking at the strategies employed by companies as part of the adaptation process. The following list represents the main strategies executed by the firms examined (Table 2). These were deduced from observations of company activity during the period, supported by analysis of documentary evidence emanating from Government departments and agencies:

Table 2: *Strategies Adopted by Firms Facing Environmental Discontinuity*

1. No change in the company's activities.
2. Cease manufacture: sell out, move to distribution.
3. Rationalisation of size.
4. Segmentation/specialisation — in design, product, or market — a value-added niche strategy.
5. Merger/growth strategy — expansion to become more efficient.
6. Diversification: move to other related or unrelated industries.
7. Market development/diversification — new export strategies or expansion of exporting.

From an examination of the companies in the sample, ranges of responses were found to fit into the seven categories listed in Table 2. Suitability or success was seen in all cases to be a factor of management skills, timely preparation and relevant past experience.

Strategy 1: No response — No change in the Company's Activities — 24% of Firms: The majority of those firms concentrating sales on the home market during EEC entry and who made no major change in the company's direction, were either forced to adapt under severely strained conditions later in the 70s or collapsed completely. These companies did not recognise the threat for what it was, or in many cases mistakenly believed that its existing strengths were sufficient to withstand competitive pressure.

Similarly, those companies already involved in exporting and who saw little need to change present strategy were adversely affected by loss of sales on the home market, and more importantly became less competitive in the export markets with the influx of imports from other EEC members. This led in some cases to eventual closure of a number of firms which had been exporting to the UK.

Strategy 2: Leaving Manufacture, Move to Distribution — 18% of Firms: The establishment of an import agency was for some companies a complementary strategy to their existing operations, particularly where rationalisation cut down the number of lines in a product range. This strategy was pursued by many firms in the footwear industry, and in fact was seen as an easier option than manufacturing or exporting. Other firms decided to sell out, mainly as a result of competition from imports.

Strategy 3: Rationalisation – 20% of Firms: This strategy was recommended as a method for increasing efficiency and cutting down on the prevailing wide range of products and short runs. In some cases, market forces induced rationalisation, when firms were still reluctant to drop product lines. Unfortunately, many firms became more efficient at doing the same thing, which meant that the vital design factors and marketing skills were still missing. Companies which employed this strategy alone were not successful.

Strategy 4: Segmentation/Specialisation – 24% of Firms: A number of companies concentrated production on defensable product markets, where competition rested on complex factor elements such as differentiation, service, and awareness of market needs. This strategy is usually associated with a movement up-market and reliance on quality and design. A number of Irish clothing manufacturers were exporting specialists before EEC entry. Developing an international orientation had paid off in reputation, brand loyalty and goodwill. The other side of this strategy is that a number of firms were too large to rely on a small number of specialised products, but were too small to approach the necessary cost efficiencies for mass-market items. This dilemma has been highlighted in an NESC Report (1982), the Telesis Report and the Sectoral Development Committee Report (1983). A quarter of these firms combined this strategy with a complementary strategy as already discussed.

Strategy 5: Growth, Expansion, Merger Strategy – 16% of Firms: Grouping together small inefficient companies so as to increase competitiveness through efficiency was seen by policy-makers as the best response for a defense against imports. Many firms saw opportunities arising out of increased size particularly with the EEC market now available. As discussed earlier, few Irish companies in these two sectors have successfully managed and maintained a growth strategy. In almost every case, the inability of management to adjust to a larger sized operation was evident.

Strategy 6: Diversification: the author could find only one firm which attempted to diversify and this strategy was followed for reasons other than those outlined in the various Government reports outlined above. The nature of the two sectors does not lend itself easily to strategies of diversification, as high margins and sustained growth are not common occurrences. Most forms of diversification favoured integration into retailing, a choice which retains the firm largely within the same industry sector. Of the companies studied, the one firm which entered seriously into diversification went into chain-store retailing in a related industry. The company chose not to exploit European expansion opportunities, which was an area where experience and expertise had long been established. The consequences resulted in the closure of the firm three years later. This is a good example of the absence of structural expansion to meet the needs of growing organisation, and the influence of shareholder objectives on management perspectives.

Strategy 7: Export Strategy – 36% of Firms: Despite the competitive environment, many firms in the traditional sector did not develop exports to any significant extent. Analysis revealed the following key issues:

(a) High levels of aversion to risk, particularly for non-exporters – export incentives did not alleviate this problem.
(b) Absence of sufficient marketing expertise and personnel.
(c) Difficulty in successfully developing new markets when the firm's commercial knowledge is based on experience in a stable protected environment.
(d) The length of time for export investment to become productive was seen as prohibitive.
(e) Consequent opportunistic approach to new markets.
(f) General disregard for market research.
(g) Lack of confidence in ability to compete in export markets. Half of these firms combined the new exporting stragegy with one of the other strategies outlined.

Discussion of Research Findings

In terms of strategic response, it was found that in general a strategic perspective was missing, as vulnerability encouraged firms to respond to short-term survival objectives. Exporting proved to be successful under the following circumstances:

(a) The firm had already gained experience in export markets.
(b) The firm had suitable products for international markets, i.e. competitive with British, French and German manufacturers and/or distinctive Irish "handwriting" suitable for a niche segment.
(c) The firm had in-house managerial and marketing skills capable of responding to new international marketing structures.

A number of firms with a heavy dependence on the British market during the 1960s did not perceive a need to adapt to the new competitive forces operating there. Exporters who did not protect their market through redesign or resegmenting their product-lines came under heavy attack from more competitive French and German manufacturers. In these cases, prior knowledge of exporting was not sufficient for success. This underlines the point that continuing success in export markets requires marketing and entrepreneurial skills in forecasting the future shape of market forces and maintaining surveillance of competitor activity.

The seven strategic responses outlined in Table 2 incorporate policy-makers' suggestions for adaptation. The main recommendations outlined in the series of reports made on the preparation of the traditional industries for EEC entry comprised the following four strategy options [Committee on Industrial Progress Reports, 1969-1972]:

(a) Mergers and expansion.
(b) Specialisation.
(c) Variety reduction.
(d) Diversification.

Ideally, these strategies were to be combined with export development. The individual reports on each sector, including the clothing and footwear industries, pointed out specific problems but the general solutions remained the same.

The present research shows that the merger/expansion strategy was in general inappropriate for the two sectors studied and overextension, particularly in the clothing sector, was responsible for the decline or failure of many companies. The nature of the industry, the lack of strategically-minded management, the large number of small units and seasonality factors appeared to make rapid growth unmanageable. Flexibility appears to be more consistent with success in this industry, and many of the more successful internationally-oriented companies today are small, flexible and well-managed firms, completely in tune with market needs.

Diversification was another strategy which was discarded, despite Government encouragement to diversify. Furthermore, direct policy, through Government investment and grant-aid, did not offer financial back-up to the exhortations to develop the marketing function within the industry. Grant-aid was used mainly for plant construction and up-dating technology, but often resulted in companies becoming more efficient in existing operations, resulting in low levels of product or marketing innovation.

It would appear that policy-makers, as well as industry members, must take their share of the criticism for failing to comprehend the implications of EEC entry for Irish traditional industry. Furthermore, it would seem that the policies of the time reflected an inadequate appreciation of the marketing and management tasks facing companies undergoing traumatic change. It is noteworthy that more recently this weakness has been recognised by ensuring the presence of marketing and management practitioners on the various Sectoral Development and Consultative Committees. It is, however, necessary to continue to develop a much more comprehensive perspective of the firm as it attempts to grow within a complex and turbulent international environment.

Conclusions

With more than 12 years of EEC membership behind them, Irish manufacturers have become more accustomed to a dynamic environment. However, many of the problems of the early 70s are still cause for concern today. The most recent report on marketing in Ireland highlighted major weaknesses in the marketing skills within Irish industries [Sectoral Development Committee, 1985]. Specific weaknesses are familiar – inadequate market information, little new product development, a defensive approach to new market development and short-term perspectives.

It is likely that those firms which have come through the transition will continue to maintain their position, but only with the continued use of marketing skills and forecasting of trends. There has been a growing appreciation of the need for State support in developing marketing skills in industry. Recommendations from the recent studies on marketing suggest that the circumstances have arisen where direct policy action on an integrated marketing infrastructure and Government support system is inevitable. Permanent marketing and management skills need to be instilled in both sectors and this is an area where public policy should be concentrated. Possible areas for consideration include:

1. Market research and identification of new market opportunities.
2. Competitor analysis and product positioning.
3. Attraction of professional management skills.
4. Increased management and resource commitments to investment in export marketing development.

The importance of learning from experience in the development of competitive skills is clearly in evidence. The acquisition of such skills may arise through the hiring of skilled marketing people and through imaginative staff development policies. In addition, it is necessary to seek ways of transferring learning from successful firms to firms new to exporting. A variety of mechanisms including the development of research based company case material and staff transfer schemes should be considered so that the transfer of learning can occur within the clothing and footwear sectors.

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