A PUBLIC POLICY FOR INTERNATIONAL MARKETING

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For anyone living and working in Ireland in the early 1980s, it would be difficult to avoid hearing the almost daily exhortations to Irish enterprise of the need to export more and to be more competitive on international markets. The challenge to Irish firms to direct their activities towards international markets, and in the process become more competitive, comes from various research studies, position papers and government sponsored reports. In this article the intention is to integrate some of this information for the purpose of examining the relationship between public policy and the internationalisation of firms in this country. In pursuit of this objective the nature of, and trends in, government policies towards international marketing over the period 1950-1981 are examined, the determinants of international marketing behaviour in the firm are identified and the international marketing behaviour of Irish firms is also considered.

Public Policy for Internationalisation

Government policy towards export development may be seen through (a) industrial policy, (b) direct government policy instruments enacted by the government of the day, and (c) indirect support through Exchequer allocations to Government sponsored agencies directly involved in export development; these are primarily Coras Trachtala (Irish Exports Promotions Board) and the Industrial Development Authority.

By viewing the relationship between direct government policy actions and exporting activity, as measured by the level of exports in real terms, it is possible to derive a crude picture of the behaviour of some of the structural or public policy determinants of exporting. In Figure 1 three elements are charted, (a) CTT's grant in aid, (b) total exports, (both in real terms) and (c) the direct policy instruments enacted during the period being reviewed. The period under review is divided into four distinct phases corresponding to four very different economic policy regimes. The major policy initiatives taken to promote exports directly during the period 1950-57 were those to establish the

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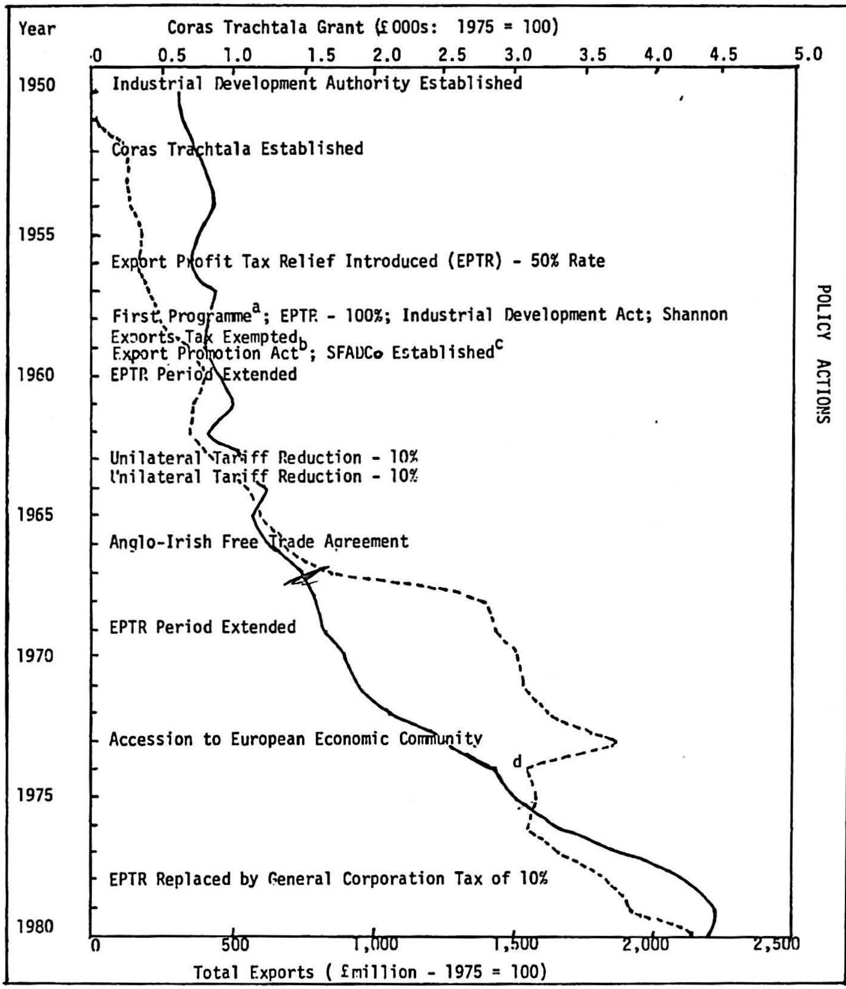
Industrial Development Authority and Coras Trachtala. During this period the indirect policy instrument of 50 per cent relief on export profits tax was also introduced. During the period of economic programming, 1958-65, a number of indirect policy instruments were introduced. Among the more important were the increased relief on export profits tax and the extension of the tenure of this relief. The reductions in the height of the external tariff was part of a wider international change in tariff levels, but did contribute indirectly to the growth of exports by reducing the cost of imported raw materials and components. Direct policy instruments were thought to be of much greater importance in an economy then emerging from a prolonged period of economic and cultural protection. The introduction of programming brought with it the recognition by government of the need to play an active role in economic development; it also provided a most important psychological challenge to what was traditionally an inward looking economy.

Since 1966 only two major direct policy instruments have been used, the Anglo-Irish Free Trade Agreement in 1966 and accession to the European Economic Community in 1973. Access to both large markets, together with the price protection afforded Irish enterprise, appear to be the laurels on which public policy has rested. Since joining the EEC the direct public policy function in regard to the development of international marketing and markets seems to have been abrogated in favour of anticipated development support from the EEC Commission. (See Figure 1).

Further evidence for this trend may be obtained by observing the pattern of growth in exports and the grant to Coras Trachtala, the major indirect policy instrument used by successive governments. By using the data presented in Figure 1 it can be shown that between the periods 1950-57 and 1973-80 the annual average grant to CTT, in real terms, increased from £273,000 to £3,425,000, or by thirteen-fold. During the same period the annual average exports increased from £383 million to £1,796 million, or five-fold. The annual average grant to CTT has been substantially greater than the growth rate in exports in the periods 1950-57, 1958-65 and 1966-72. In the most recent period, 1973-80, corresponding to this country's membership in the protected EEC market, the annual average growth rate in CTT's grant fell to 3.9 percent while annual average exports grew at 9.8 percent. Furthermore, even though it is extremely difficult to observe a direct relationship between expenditure to support exports and exporting performance one would expect an orderly growth in that support. It might be expected, therefore, that Exchequer support for exports would show a steadily rising path over time. While real support may be greater in the 1980s than it was in the 1950s the year to year variation in this support is very high and

Figure 1: *Policy Actions, CTT Grant in Aid and Total Exports 1950-1981*



a. First Programme for Economic Expansion
b. Revitalized CTT
c. Shannon Free Airport Development Company
d. Annualized to calendar year basis

——— = Total Exports
– – – – = CTT Grant

not adequately explained. During the period 1951-80 the year to year variation in exchequer support to CTT related to the annual average support measured in real terms and expressed as a percentage was 78 percent which is very high by any standard. It would seem, therefore, that public policy favoured the development of international markets through indirect policy instruments, especially using CTT, in the period 1958-73, but thereafter relied on the protection afforded by EEC membership. Furthermore, the year to year variation in Exchequer support in real terms to Coras Trachtala indicates an additional inconsistency in policy towards export promotion. These fluctuations and the occasional decline in real support may be easy to accept in terms of the various demands on the public purse, but in terms of a policy to aggressively promote export development they are difficult to comprehend. In conclusion, a downturn in direct Exchequer support for export-promotion activities is observed as well as an almost complete absence of direct policy initiatives to support the continued growth in exports. Allowing for possible lags in the effects of these direct and indirect approaches it is possible that the long run outcome will be detrimental to export development. Policy makers may have consciously or unconsciously decided that the best way of encouraging exports from Ireland is to rely on the protected market mechanisms, including commodity price support schemes, operated by the European Economic Community. For example, it is evident that market and product development activities among firms in the beef and dairy sectors have in fact regressed since joining the protected EEC market [Bradley 1980]. In the light of the need to have market and product development policies to assist firms in designing adequate international marketing strategies as discussed above, it is questionable whether the abrogation of policy decision making functions as implied here is the appropriate strategy. The evidence available suggests that a fully comprehensive and effective export development policy for Irish industry has yet to be designed and implemented [Bradley, 1982].

Determinants of International Marketing Behaviour in the Firm

Marketing as a management function is concerned with two key questions: (a) how to adapt marketing strategy to the prevailing market structure or environment, and (b) how to influence or modify that structure to suit the objectives of the firm. The growth and development of the firm in an open economy usually depends on the implementation of a marketing strategy where we define strategy as the predetermined approach or stance that the firm adopts in order to cope with a relatively fixed environment or market structure. As the firm moves from the domestic to international markets the problem of matching or harmonising strategy and structure is complicated by problems which arise between sovereign states such as tariffs, currency problems, non-tariff barriers and other manifestations of nationalism and international politics. In addition, market structures for a given product may vary appreciably from one country to the next due to differences in the activities of various competitive factors, in values, life styles, economic development and government involvement in business and political stability [Thorelli and Becker, 1980; Cateora, 1983]. Properly conceived, marketing strategy, which is reflected in the firm's marketing mix, capitalises on the differential advantages of the company while protecting it from the unwholesome effects of its differential disadvantages. Strategy is what makes the elements of the marketing mix work in a co-ordinated fashion as a whole rather than as disparate parts. It is particularly important in international marketing to have a well conceived strategy since it is so easy to dissipate effort in overseas markets.

Internal Determinants of the Internationalisation Process: The question arises, therefore, as to the nature of the conditions within the firm which are likely to lead to a successful strategy for international markets. In attempting to answer this question we proceed by first identifying characteristics within the firm which predispose it to internationalise its activities. Four sets of factors internal to the firm have been suggested as likely determinants of whether firms develop international markets [Cavusgil and Nevin, 1981].

The Firm's Differential Advantages: The first group of factors derive from the firm's differential advantages reflecting the nature of the firm's products, its technological orientation, and its other resources. The firm which produces competitively priced and technically superior products has clear marketing advantages which can be exploited on international markets. Likewise, the technological intensiveness of the firm's output will separate it from other firms in the industry. The more technologically intensive the firm's output the greater the likelihood that the firm will distinguish itself on international markets. Although not discussed by the authors cited above, the possession of these advantages presupposes that the firm also has an abundance of another resource, namely, knowledge. Knowledge of opportunities or problems is assumed to initiate decisions. Furthermore, the evaluation of alternatives is based on some knowledge about relevant parts of the market environment and about performance of various activities [Johanson and Vahlne, 1977]. But we know that knowledge is of two types; objective knowledge which can be taught, here referred to as Type I knowledge, and experience or experiential knowledge, which can only be learned through personal experience, here referred to as Type II knowledge [Penrose, 1959]. We believe that the two forms of knowledge underlie the firm's differential advantages and note further that an important aspect of experiential knowledge is that it provides the framework for perceiving and formulating opportunities whereas objective knowledge refers to marketing methods and common characteristics of certain types of customers, irrespective of their geographical location. While knowledge affects all four groups of internal determinants it is believed that the two aspects of knowledge discussed here are essential ingredients of the firm's differential advantages. One important outcome of this discussion is that there is a direct relation between knowledge and commitment discussed separately below. Knowledge is a resource and consequently the better the knowledge about a market, the more valuable are the resources and the stronger is the organisational commitment to the market. This is especially true of Type II knowledge or experiential knowledge which is usually associated with the particular conditions of the market in question and thus cannot be transferred to other individuals or other markets. Experiential knowledge is also an important determinant of management expectations.

The implications of the knowledge acquisition issue are obvious in the case of large scale indigenous firms in Ireland. These firms have been criticised for their lack of export orientation and it is suggested that policy makers direct their attention to re-orienting these firms [NESC 1982 a]. But this is not an easy task. To accommodate the task as quickly as possible the best way would be to obtain and use market experience by hiring marketing people from representatives or to buy all or part of the representative firm. However, in many cases this kind of experience is not for sale; at the time of entry to a market the experience may not even exist. It has to be acquired through a long learning process in connection with current business activities. This factor is an important reason why the internationalisation process often proceeds so slowly. Consequently, it is important, in assessing a firm's disposition to internationalise, that its internal advantages and disadvantages are thoroughly evaluated as they are so important in determining behaviour in this regard.

Managerial Aspirations: The second set of factors are subsumed under the strength of managerial aspirations for various business goals including growth, profits and market development. In this set of factors are the development of new markets including export markets [Grey, 1980]. Managerial aspirations are widely discussed in the theory of the firm literature as a determinant of risk taking behaviour. The importance the decision-maker places on the achievement of each goal is thought to be a direct determinant of decision making behaviour. Empirical studies reveal a positive relationship between export marketing behaviour and the decision maker's preferences for business goals [Simmonds and Smith, 1968]. And further, it is known that definite psychological and motivational barriers to the internationalisation process exist which may be attributed to the absence of appropriate managerial aspirations [Bradley and Keogh, 1981].

Management Expectations: The third set of factors comprises management expectations about the effects of exporting on business goals. Expectations reflect the decision makers' present knowledge, as well as their perceptions of future events. Managers tend to form expectations or opinions about the profitability and risk associated with international marketing on the basis of their own and other firms' experiences (see Type II knowledge above). Environmental variables, such as the receipt of unsolicited order from foreign buyers, are also reflected in management's subjective assessments of the desirability of exporting [Bilkey and Tesar, 1977]. Other environmental variables, such as exchange rate fluctuations, are also important. The experience of international markets thus gained by the firm becomes an important determinant of international marketing behaviour. Presumably, successful experience has a positive effect on the internationalisation process whereas a poor performance has a negative effect.

Organisational Commitment: The fourth set of determinants is found in the level of organisational commitment to international marketing, where commitment is measured both by the amount of resources devoted to the effort and the degree of that commitment [Johanson and Vahlne, 1977]. The more specialised the resources are to the specific international marketing endeavour the greater is the degree of commitment. The degree of commitment is higher the more the resources in question are integrated with other parts of the firm and their value is derived from these integrated activities. An example of resources that cannot easily be directed to another market or used for other purposes is a marketing organisation that is specialised around the products of the firm and has established integrated customer relations. The other part of organisational commitment to international marketing refers to the amount of resources committed. Here we refer to the size of the investment in the market including investment in marketing, organisation, personnel and the other functional areas [Cunningham and Spigel, 1971; Hunt, Froggatt and Hovell, 1967]. Among these tasks we find the gathering of foreign market information, assessment of foreign market potential, and formulation of basic policies toward international marketing and planning.

Now that we have examined the four sets of internal determinants of a firm's internationalisation process it is possible to conceive of firms being on different points on a continuum for each of the four sets of factors. A high score on any one factor means that the firm possesses a greater propensity to internationalise its operations. Furthermore, a firm with a high score on each of the four factors would demonstrate a still greater propensity to internationalise. The next step is to combine the four internal determinants into a propensity to internationalise index as shown in the vertical axis in Figure 2. If on the horizontal axis we measure the time and/or resources devoted to internationalisation we derive a very important relationship. Note that it is necessary to devote considerable time and resources to the internationalisation process (horizontal axis) before the firm can achieve a critical mass propensity level (vertical axis). Below the critical mass threshold, the 'payoff' in terms of increasing the propensity to internationalisation is relatively small. Similarly, above the critical mass threshold the payoff again drops off. Consequently, in terms of response the area of interest is the shaded area in the figure where additional resources devoted to the internationalisation process produce the greatest reward as measured by the propensity to internationalise.

Turning to the issue of time and resources (horizontal axis) it is easy to conceive of a continuum along a process or stages of internationalisation beginning with a stage prior to exporting and ending with a stage where the firm is an established exporter. For the purposes of this paper internationalisation refers only to those stages associated with exporting as the manner by which firms internationalise their operation.

Stages of Internationalisation: In the previous section we introduced the concept of stages in the process of internationalisation. Three stages were identified. The pre-export market entry behaviour of the firm is important for a number of reasons. The investment of managerial time in carrying out pre-entry activities such as information collection and transmission is particularly important for the smaller firm [Bilkey, 1977]. It is thought that the more active the firm in the pre-entry phase the greater will be its investment in developing financial and marketing strategies [Wiedersheim-Paul, Olson and Welch, 1978]. Active pre-entry behaviour requires managerial time and financial resources to be committed to activities such as sales promotions abroad, visits to foreign markets and other means of obtaining relevant marketing information. A high performance on these factors ensures that the firm establishes a commitment to its international marketing strategy.

The tentative and experimental character of the early exporting stage and its importance in leading to the international marketing establishment stage is well in evidence [Wiedersheim-Paul, Olson and Welch, 1978]. According to these authors this experimental period is thought to last about two years. While I do not think it is possible to settle for a particular duration for this stage it is noted that due to the low propensity to internationalise among many firms the tentative approach to exporting seems to be an almost permanent state of affairs. Consequently, there is a grey area between the pre-exporting and early exporting stages. Nevertheless, two important aspects of the early exporting stage are identified: (a) the fact of making an export sale and (b) the circumstances surrounding the sale. Depending on the attitude of the decision maker and the pre-entry preparation more resources are likely to be directed towards developing international markets the stronger the positive feedback from export sales such as profits, product acceptability, and general marketing experience. The learning behaviour and exporting experience associated with this stage reduces risk and uncertainty. Negative feedback and increased risk may lead to low or passive export marketing behaviour, or worse still, early withdrawal from the internationalisation endeavour [Welch and Wiedersheim-Paul, 1980]. The management implication is that a fragile commitment to the development of an export marketing strategy, usually reflected in a limited amount of pre-entry preparation, must be avoided if successful internationalisation strategies are to be developed.

Established exporters may be separated from the previous two groups on a number of criteria. For traditional trading countries like the United Kingdom, the Netherlands and Germany, it is known that while exporting firms sell to a large number of markets most of the export sales are derived from a comparatively few markets [Barclays Bank, 1979; BETRO 1977]. A similar situation is in evidence for the United States where the 80 : 20 rule is thought to apply to the activities of established exporters [Dubinsky and Hansen, 1982]. The situation for established exporters in Ireland is in marked contrast to the above. Established exporters in Ireland favour markets for which business distance, economic and socio-cultural distance combined, is relatively short. This means a market concentration strategy and in most instances these firms deal with one market only, the United Kingdom. The behaviour of the larger indigenous firms in this category have already been criticised for concentrating on the United Kingdom market [NESC 1982 a]. It is more appropriate to refer to the 99 : 1 rule in the case of established exporters in Ireland. Moreover, it is a peculiar form of concentration strategy. For most established exporters serving the United Kingdom market the emphasis appears to be on commodity trading and price, thus neglecting the more important elements of the marketing mix. The issue is whether a firm should follow a market concentration strategy or a market differentiation strategy [Ayal and Zif, 1979]. In terms of Figure 2, many established exporters have reached the stage of declining propensity to internationalise, i.e. to the right of the shaded area, because they have followed, too rigidly, a concentration strategy in the United Kingdom market or have spread themselves too thinly across many markets through a diversification strategy. Hence, a trade-off between the two strategies is needed with greater emphasis given to the improved judgement on the marketing mix variables that would result from concentrating on a selected number of export markets. Such a strategy would ensure that the internationalisation process is not stopped nor delayed indefinitely if the decision to enter a particular export market proved negative [Eustace, 1982]. Furthermore, chosen markets could be developed in the sequence that would best balance available resources and time consonant with the requirements for making the appropriate impact on the market.

International Marketing Behaviour of Irish Firms

In the previous section we examined the relation between the propensity to internationalise as measured by four internal determinants of international marketing behaviour and the stage of internationalisation reached by the firm. In this section we propose to examine this behaviour among Irish firms in general so that we may identify the public policy implications of such behaviour. Three groups of firms are examined; (a) large scale indigenous (LSIs), (b) new foreign owned (NFOs), and (c) small and medium sized enterprises (SMEs). It is not the intention to discuss these issues in detail as this has been treated adequately elsewhere (NESC 1982 a).

Large Scale Indigenous Firms: Large scale indigenous manufacturing industry comprises a relatively small number of public and private limited companies. To this group must be added a small number of cooperatives which export meat and dairy products primarily as commodities. While there is little research concerning the international marketing involvement of LSIs substantial support from the business press is available which suggests that exporting by LSIs has not been very important (Irish Times, December 1982, Irish Business, January 1983). Further support for this view is available in a forthcoming study [Bradley, 1984]. Several reasons have been presented in explanation for such behaviour [NESC 1982 a, pp 88-112]. Moreover, they are not very satisfactory as the authors indicate. It might be expected that an open economy such as Ireland, dependent as it is on trade, would exhibit a much greater level of exporting activity among its largest indigenous enterprises. Importing is, of course, another matter. The question arises, however, if the distribution channel works in an inward direction why does it not work in the reverse direction. It appears that the LSIs experience a severe trade back-loading problem similar to that experienced by transportation firms. The situation regarding the LSIs does not appear to have improved from that which led one author to remark that export marketing was "the preserve of a few large and adventurous firms and a certain mystique tended to surround the idea of selling to foreign markets" [O'Rourke, 1967, p. 123]. It is concluded here, therefore, that outside a few large indigenous firms in the food and drink sector, the level of international marketing capability in a great number of the larger established firms is relatively low.

New Foreign Owned Firms: The record of new foreign owned industry (NFOs) on the transfer of marketing technology to Ireland is even less attractive. Policy makers have attempted to ensure that NFOs attracted to this country bring with them key skills to be transferred to Irish skilled workers, engineers and scientists. A developing economy must direct considerable resources to building a reservoir of specialist skills to ensure economic growth, development and general well-being of the nation. The development of international management skills to ensure that firms internationalise their operations should be an essential ingredient of an industrial policy. The transfer of marketing technology, until recently, was not part of industrial development policy. Indeed, industrial development policy, as we have known it, precludes the need to have as a component the transfer of marketing technology. Emphasis in industrial policy has been the attraction of production units which would provide employment and make a contribution to the balance of payments. For these reasons we identify four reasons, three direct and one indirect, why NFOs make such a poor contribution to the transfer of marketing technology. For the three direct reasons we turn to some recently published work [McAleese, 1977]. By manipulating the data in this study we identify three major reasons why NFOs contribute so little in the marketing area. First, we note the high proportion of exports which return to the country of origin of the NFO or go to an overseas affiliate. Such activity helps to develop certain financial and administrative skills but does little to improve marketing. Second, the dominance of the United Kingdom market prevents the transfer of appropriate marketing skills into Irish enterprise. For many Irish firms, including many NFOs, the United Kingdom is considered an extension of the domestic market. The implication is that many of the really testing problems experienced by firms going through the internationalisation process are not experienced by Irish firms, NFOs or LSIs, exporting to the United Kingdom. As a consequence, the concentration of exporting activity by NFOs in the United Kingdom market contributes little to the overall development of marketing skills in this country. Third, the extent of overseas control of marketing activities among NFOs prevents the development of international marketing skills. The location of marketing responsibility is a good indicator of the level of marketing activity vested in a firm by its overseas parent.

The development of marketing skills among Irish managers would arise much more quickly if foreign enterprises operating here located the marketing function in the country. McAleese found that 61 percent of NFOs in Ireland located marketing responsibility outside the country [McAleese, 1977]. The fourth barrier to the transfer of marketing technology arises because of the low level of sourcing which is found among NFOs [Shiels, A., 1977, Shiels, D., 1982, Wyrnn, 1979]. Local sourcing can be a valuable method of raising quality standards, introducing new products and innovations among indigenous firms especially among smaller enterprises. It is recognised that necessary time-lags occur before NFOs can properly develop local suppliers and that sourcing indirectly contributes to improved marketing skills. Taking all four reasons together we conclude that apart from a few major subsidiaries of multinational enterprises, NFOs have not, until recently, and never were expected to contribute to the growth and development of marketing capability in this country.

Small and Medium Sized Enterprises: In many countries small and medium sized enterprises (SMEs) account for a significant proportion of total exports. In recent years significant developments in international marketing and in the development of manufactured products exports has occurred among the SMEs. There have been a rash of programmes developed to support this activity among which might be listed the IDA's Project Identification and Enterprise Development Programmes and CTT's Small Exporter Recruitment Campaign. The objectives of these programmes are to encourage as many new small scale ventures as possible in the hope that they will succeed, grow and eventually internationalise their activities. This recognition of the importance of the SMEs has come in the wake of a series of academic research work [Grey, 1980, Jackson, 1977, Kennedy, 1977, Keogh, 1980, McEntee, 1981, Reynolds, 1977]. In this country in common with other countries, a significant volume of output, exports and productive employment is accounted for by the activities of a large number of SMEs. The major international marketing problem facing these firms is the under resourcing of their exporting activities. It has already been argued that many existing SMEs and those continuing to be established do not have the strength nor structure required to eventually internationalise their operations [NESC 1982 a, pp 128-132]. In Ireland institutional support for the exporting activities of the SMEs comes principally from Coras Trachtala. With a budget of £4,354,000 in 1977, CTT serviced 1,680 firms, the average exports of which were £900,000 [Coras Trachtala, 1980]. Almost 75 percent of these firms employed less than 100 people. On average each firm in this group exported a mere £200,000 worth of product and the group as a whole, it is estimated, exported almost 11 percent of total Irish exports in that year [Coras Trachtala, 1980]. Given the high cost of servicing an export market it is difficult to see how this low level of exporting activity among the SME's can be supported in the longer run. It may be necessary to seek a greater return for the resources now directed at the small firms. There is no reason why so many small or inefficient firms should become directly involved in exporting. New support structures would permit a more efficient structure to emerge. It is recognised, however, that the smaller firms are substantial employers, a fact which should not be used to blind policy makers when it comes to developing international marketing policy for the country.

Because of the nature of the SMEs and because of under-resourcing related to the critical mass required for successful exporting, the question of the transfer of marketing technology arises in this case as well. In this instance, however, a transfer of marketing technology into the small and medium sized enterprises is the objective sought and the only sources for this transfer have been government-sponsored programmes of export development and what the firms themselves can command directly through hiring or training of people required for the international marketing task. The evidence available suggests that the smaller companies shun management training and export development programmes designed for them. There is little evidence that smaller companies have expressed a desire for, or are capable of, hiring or training export specialists. Indeed, the general weakness of small scale manufacturing industry is very much in evidence in research into the export capability of four sectors of Irish industry recently completed at University College Dublin [Eustace, 1982, McGrath 1982, McSharry, 1982, O'Driscoll, 1982]. Consequently, small scale manufacturing industry will continue to need the support of outside agencies if not in its present form then in a more appropriate form.

The Need to Intervene: The outlook, therefore, for the development or transfer of marketing technology suited to Irish circumstances is very bleak. Some intervention into the system has already been made through the establishment of tailor-made educational programmes in international marketing management. Without the appropriate support structures, however, such isolated endeavours are doomed to failure. To tackle the task adequately other programmes must be developed if the situation is to be improved. Because so many small firms do not possess adequate resources to reach the level required to successfully engage in international marketing, it is necessary to seek alternative methods of export development. To date, exporting has been treated as a retailing function, i.e. all potential exporters have been encouraged, directly or indirectly, to become involved in export marketing. Because of the size of the international marketing task involved, these firms, usually small and under-resourced, choose to compete on price and never reach the stage of competing on the other elements of the marketing mix such as product, channel management, personal selling or advertising. To successfully compete on international markets may require firms and policy makers to seek alternative institutional arrangements to encourage a more efficient use of scarce resources. This is where a change in market structure could bring about an improved marketing strategy. Possible solutions might be sought in encouraging the wholesaling of the exporting function along sectoral lines or joint ventures or co-operative agency agreements among a number of potential exporters. Many alternative models might be prescribed all of which would allow more efficient use of public and private funds while improving international marketing productivity.

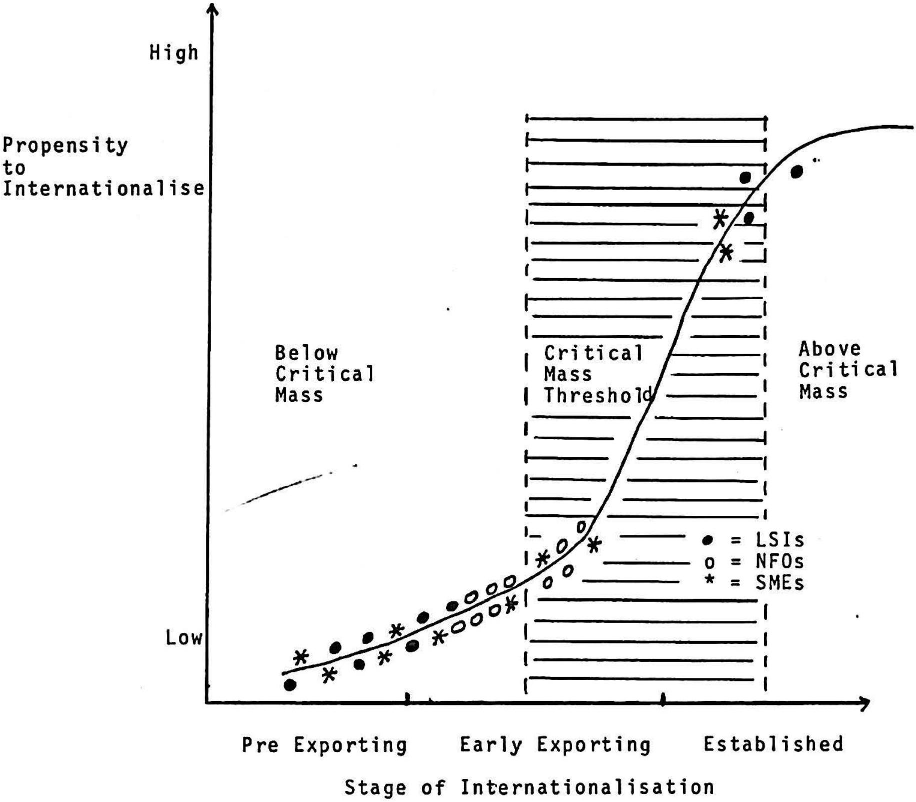
We have discussed the nature of the problems facing the three types of firms, LSIs, NFOs and SMEs and related each to the stage reached in the internationalisation process. We have also attempted to determine the propensity of each group of firms towards internationalisation. The discussion is summarised in Figure 2 where we attempt to place firms from each group on the path to internationalisation according to progress on attaining critical mass as previously discussed.

A number of features of the diagram require comment. It is important to note that firms fall into two groups. The larger group are concentrated on the lower end of the response curve in the pre exporting and early exporting stages. A smaller group lies toward the higher reaches of the curve and are classified as established exporters. The second thing to note is that the LSIs are predominantly in the pre-exporting stage with a small number in the other two stages. The NFOs are predominantly in the early exporting stage but as yet have not demonstrated a high propensity to internationalise. Finally, the SMEs are scattered throughout, some very successful but the majority still in the pre exporting stage. Perhaps what is not fully appreciated by exporters and policy makers is that the slope of the response curve in its early stages is very small indeed and that a high threshold level of resource commitment is required to push firms along the path of internationalisation.

Policy Implications

There is considerable evidence of an abrogation of decision making in regard to the structures most appropriate to the proper development of international marketing capability in this country. Traditionally, smaller exporters and potential exporters have been assisted on an individual basis without great regard to their ultimate capability of reaching the

Figure 2: *Internationalisation Profile of Irish Firms*



required critical mass threshold to successfully carry out the international marketing task. A change in policy, perhaps involving new structures and institutional arrangements outlined above, may be warranted. There is an obvious danger in public policies which encourage firms to become exporters before they are adequately prepared for such a step, so that they represent a high risk of early failure or temporary withdrawal from international markets. Nevertheless, it is necessary to accentuate the importance of measures to support exporters during the initial tentative stage, particularly in their marketing efforts. In terms of Figure 2 above it is necessary to ensure that once started on the path towards internationalisation, firms do not falter for lack of appropriate public policy support. In this connection it is not clear that encouraging all small firms to become exporters is the most appropriate policy. Such a policy makes poor use of scarce resources. In these circumstances policy makers might consider the promotion of intermediaries or wholesalers in the exporting function so that sales from smaller under-resourced firms could be channeled through an export marketing channel designed for the task. Various designs might be proposed but the ultimate choice should depend on the circumstances in the market place and the willingness on the part of existing and potential exporters to accept the change.

In regard to NFOs it is important that the change in emphasis in industrial policy, already partially in evidence, should continue. While NFOs at present are capable of transferring certain production and limited management skills to this country, it is necessary also to ensure the transfer of scarce marketing technology. As indicated, the evolution towards a marketing orientation among existing NFOs takes time but can be speeded by the introduction of appropriate policies. As NFOs mature there is a normal tendency for firm differential advantages to favour internationalisation of the subsidiary's activities. Similarly, aspirations change as do expectations thus leading to a favourable change in organisational commitment to internationalisation.

The group of firms exhibiting the greatest barrier to internationalisation are those labelled LSIs. The myopic perspective of firms in this group will pose severe problems for managers and policy makers. Nevertheless, because of the established channels and networks and their demonstrated importance to the economy intervention here would seem to be very worthwhile. Obstacles which have been identified by the NESC as preventing these firms from entering foreign markets are the inability to acquire the necessary business skills and the ability to bear the initially high costs of overseas marketing (NESC 1982 b, p 4). It is necessary, however, to consider additional barriers such as managerial attitudes to internationalisation and the endemic introverted orientation of many firms in this group. A change in orientation among the LSIs requires substantial policy maker intervention in the areas of industrial organisation structure, financial institutions and education. The institutional strengths of the LSIs complements the product innovative strengths of the SMEs but new institutional arrangements are required to produce the synergy which would obtain if they could be persuaded to work together.

The success of public policy to support internationalisation should be measured not simply by the number of new exporters created, but by the number of continuing and substantial exporters of high value added products that are established.

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