

# **Small firm, glocalization strategy and proximity**

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### **Abstract**

This article aims at clarifying the reasons for territorialisation of SME export strategies. The explanation lies, on the one hand, in the leading role that proximity exerts on SME management and, on the other hand, in the increasing role of local governments in the global insertion of local economies. Both dimensions form the strategic foundations of SME *glocalization* strategies and intensify the dialectics between the SMEs' International Management and the Territories' International Management. In order to illustrate this double dimension, a pilot project of internationally oriented local development will be presented: the Business Incubator for International Trade of Montpellier CCI (Chamber of Commerce).

## Introduction

In his works devoted to the globalization of competitiveness, Porter shows that the two most promising paths are, on the one hand, globalization strategies based on a high dispersal/coordination of a company's activities (Porter, 1986 ; Bartlett & Ghoshal, 1989 ; Doz et al., 2001) and, on the other hand, industrial districts or local clusters (Porter, 1990 ; 1998 ; 2000). Whereas the first model seems to be particularly adapted to the big multinational firm, on the other hand, it appears that the second is more compatible with the specific management style of small companies. Whereas competition has become global (Agmon et Drobnick, 1994), competitiveness remains highly anchored within the territory (Genosko, 1997 ; Budd, 1998).

The impact assessment of these globalizing processes, both for SMEs and for regions, leads one to place the proximity and territory concepts at the centre of the analysis, by suggesting two axes of reflection :

- On the one hand, the smaller dimension constitutes a constraint that leads the SMEs to prioritise the proximity dimension in their management style.
- On the other hand, the proximity territory in which small companies are established may constitute a basis, and even a stepping stone, facilitating the access of the small company towards an international opening.

By pushing the argument further, we could wonder if the proximity constraint could evolve into a proximity advantage. The set of problems which ensues can be formulated according to the following terms : to what extent do territorial insertion and proximity constitute a source of sustainable competitive advantage for a SME which gets involved in an internationalisation process ?

Many examples show that some regions win while others lose. Thanks to their historical background or as a result of deliberate and aggressive territorial development policies, the winning regions are those which managed to build industrial areas with geographically concentrated activities and which are indisputably competitive at a global level. Developing conceptual tools such as the "industrial districts", "innovative milieu", "*systèmes productifs localisés* (localized production systems)", "clusters", has provided a more efficient analytical approach to a highly complex reality. The phenomena of spatial polarization can be found worldwide (Ottaviano and Puga, 1998). Among well-known examples, we can mention the computer industry in the United States (Silicon Valley, Route 128), the film industry (Hollywood, Berlin), the pharmaceutical industry in Bâle in Switzerland, the *haute couture* in Paris or Milan. Sometimes these phenomena of concentration can be limited to the size of a district such as le Sentier district in Paris or a street such as Madison Avenue in New-York where large American advertising agencies are based.

All these concepts suggest that competitive advantages can be gained on a local rather than national scale and that SMEs, whether they are innovative, industrial, family business small craftsmanship firms, can increase their competitiveness on international markets on the basis of a strong local integration.

If competition has become global, competitiveness is still occurring on a local scale. Consequently, several researchers studying SMEs (Johannisson, 1994 ; 1998 ; Keeble *et al.*, 1998; Torrès, 1999) developed a concept that we can describe as a theory of glocalisation, a neologism resulting from the contraction of the terms “global” and “local”. This theory is based on the following principle: *proximity plays an active role in the global insertion of SMEs*. Their performance would then depend on the availability and quality of local resources because it is at this level that SMEs first look for their external resources. Most SME internationalising processes are embedded in local positions (Keeble and al., 1998), which give to territory (of proximity) a crucial role that has to be assessed and integrated in SME internationalising theory.

Several original studies (Léo *et al.*, 1990 ; Deshaies *et al.*, 1992 ; Joyal *et al.*, 2000) have shown that the structure and the quality of the local economic environment are success factors in the internationalising of SMEs. They usually give preference to the region where they are established for all the operations composing the hard core of international activity: transport and transit, financing exports, transportation insurance, and public financial support (Léo *et al.*, 1990).

For all these reasons, we have chosen to use the concept of “internationalising milieu” to define all the players and factors which make the internationalisation of SMEs and of the local entrepreneurial environment easier. First we will explain the characteristics describing a territory as a internationally-oriented milieu, and then we will define the factors favourable to the emergence and the organisation of this kind of milieu.

## 1. Definition of an "Internationalising Milieu"<sup>1</sup>

There may be disparities within a territory. Sustainable cooperation relationships may arise in some regions rather than others, encouraging innovation (innovative milieu) learning and industrial exchange (industrial district) or creativity and initiative (entrepreneurial milieu). Some regions also favour interactions between local and international activity, offering a highly dynamic local activity while being easily accessible to the rest of the world. These regions are known as internationally-oriented milieux.

A "*internationalising milieu*" is a sustainable cooperation system ("*milieu*") in which the local players (SMEs, local authorities, public and semi-public bodies, academic research centres, banking institutions...) work together towards creating a internationalising dynamic in order to make local firms more accessible to the rest of the world and the region more attractive on an international scale. A internationalising milieu implies an endogenous dynamic to encourage local firms to develop a globalizing strategy, based on externalities and internationally-oriented proximity interactions. It also requires internationally-oriented proximity agencies, aiming at the coordination of local and global activities, which provide the milieu with its dynamic; this should have a self-strengthening effect on the milieu : the more it is internationalized, the more it becomes internationally-orienting. Several indicators may be used to assess a internationally-oriented milieu :

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<sup>1</sup> We prefer the term "milieu" than "cluster". A cluster is a geographic concentrations of interconnected companies and institutions in a particular *field* (Porter, 1998). A milieu is a geographic concentrations of interconnected companies and institutions in a particular *function* (innovation, entrepreneurship, internationalisation..).

Firstly, it should be equipped with high-speed system of communication facilities. A region close to an airport, a motorway or a port is easily accessible, and therefore more attractive. Movements of people and goods are made easier. Having access to a high-output network such as ADSL is also an asset. These are generic resources which will soon be made widely available due to the French policy favouring an equal treatment of the regions.

Secondly, it should have specific resources, which will be crucial in distinguishing between regions. A region hosting famous multinational firms appears as reliable and attractive. The success of the french Sophia-Antipolis technopole is largely due to the setting up of IBM and Texas Instruments there, which attracted many businesses working in the fields of IT and electronics. Today, these activities are among those which generate the largest exports in the region, while the traditional chemical and fashion industries, once the leading activities of the Côte d'Azur, lag far behind. When a internationally-oriented milieu gains a worldwide reputation of excellence, like the Silicon Valley, it attracts more multinational firms, thus generating a cumulative international development. The polarisation of firms with an international strategy or multinational firms leads to a culture of globalization. Dynamic exporting groups will emerge; firms operating on the national market only will be encouraged to develop a globalizing strategy when in regular contact with similar firms which have had an international activity for several years. Contacts with international firms with experience can make the globalization procedure easier for starting businesses.

Moreover, the presence of international and multinational companies will give rise to a shared concern for quality among all the stakeholders of the territory. Requirements in terms of ISO standards will be the norm. The internationalising milieu can also be defined as a productive space where international standards prevail. The density of ISO- certified companies is a quantitative but also a qualitative indicator (ISO 9001 being preferable to ISO 9002 and to 9003...) of the internationalising nature of a milieu. The more the current changes imply the development of international relations, the more the milieu is internationalised and becomes internationalising.

The internationalising nature of an milieu depends also on the attitude of the larger companies which are able to facilitate the SMEs' global insertion . A company such as EDF (The French electricity company) for example, frequently carries out "piggy-back" operations<sup>2</sup> for its SME customers. The presence of a large foreign community (migrant workers, foreign students, expatriate executives of multinational firms) is also a factor which can strengthen international economic links between the region where they live and the different countries from where they come.

The internationalising milieu are also characterized by the number and quality of service providers in the field of international management. The density of import and export companies or of consultants in international development is an asset which differs according to the implantation territory of the company. Furthermore, the regional training offer in international management, particularly adapted to SMEs, can also instil international ambition in local

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<sup>2</sup>The "piggy-back" is an operation by which a company, generally a SME, is "conveyed" abroad thanks to the support of a big company which gives it access to its international network. The service of "piggy-back" can range from the simple supply of information concerning a country to making available a commercial branch, even to accompanying the SME abroad .

companies. Students from a business school or a university, trained in international management, create by their mere presence and their initiatives a favourable environment for the international insertion of a region and its firms.

Many public or private organisations also aim at supporting foreign trade and facilitating access to the world market. We call them “internationally-oriented proximity structures”. The Chamber of Commerce (CCI) is often endowed with an external service which regularly organises prospecting missions abroad. The Regional Delegation for Foreign Trade (DRCE) contributes a lot, often in the form of subsidies (FRAEX, a FACE programme), and notably facilitates connections between local companies and Poles of Economic Expansion (PEE) localized in almost all the countries of the world. One of the DRCE duties as well, is to favour contacts between local small firms and the network of foreign trade counsellors. These are generally experienced professionals in international management prone to transmit newcomers in the sector the benefit of their experience. Such a networking strategy also rests on private associations. The Exporters’ Club for example, is a national association which has a delegation in all the French regions. This club regularly organises meetings among the professionals of international trade and makes member firms, generally SMEs, aware of the difficulties and specificities of international trade. The aim of this club is also to ease the transfer of experience in international trade between the different member companies. It works like a locally-centred network with an international scope.

In short, most SMEs do not get involved at an international level by themselves but thanks to the contribution of a varying number of players operating within the same territory. This is the territorial dimension of SME internationalisation included in the concept of internationalising milieu. This concept can be described by means of four criteria referred to as the four “D’s”: Density, Diversity, Dynamics and Directionality<sup>3</sup> (in the double meaning of Governance and Strategy). The first two criteria are quantitative and easily observed. The last two criteria are qualitative and require on the contrary in-depth investigation to assess their intensity.

The density, diversity and dynamism of foreign intermediate trade operators constitute each region’s individual resources. Unfortunately, the general impression they give is too often that of a scattering of strengths and means. The measures of mutual assistance and support are multiple and each organisation, to preserve its identity, develops its own strategy. It appears necessary to coordinate the efforts of this heterogeneous entity in many regions. In other words, the major drawback in many areas consists in poor, even nonexistent, local governance. It is precisely at this level that territorial authorities can make a useful contribution.

## **2. The role of territorial authorities in internationalising milieu**

The emergence of synergies is rarely spontaneous, even less automatic. The interconnections between firms and institutions are necessarily a long term process. Common work habits can only develop over the mid or long term. To accelerate the networking process, territorial authorities can play an essential part bearing in mind what Fourcade (1993) calls *network activation*. Montpellier’s Technopole is an outstanding example.

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<sup>3</sup>This fourth dimension “directionality” was suggested by Colette Fourcade

In this region, the economic infrastructure is essentially made up of small businesses, without any industrial specialisation or common industrial history as opposed to industrial districts. Nevertheless, this region's asset lay in the large university scientific centre and numerous research institutes. However, most research laboratories worked on basic research programs, hardly transferable to small firms. Thus, small businesses could not get into territorial networks. The territorial authority, i.e. the Montpellier district, therefore undertook two series of measures. On the one hand, the strengthening of local operators' "connection" to public and para-public generic networks like ANVAR (National Agency for Research Development) or CRITT (Regional Centre for Innovation and Technology Transfer), all enhancing the circulation of information. On the other hand, the creation of intermediate operators such as the European Business and Innovation Centre, the "Cap Alpha" business incubator, developing the emergence and strengthening of small innovative firms. Over the last ten years, this business incubator has supported more than two hundred firms while creating 3000 direct and indirect jobs in the Montpellier region. Thanks to the success of such a development, the Montpellier Agglomeration today plans to enlarge the hosting area by creating a new structure, "Cap Omega".

Recently, the structure of Montpellier's Mediterranean Innovation Centre (MMT), in partnership with the County Council of Hérault and, more particularly, the new structure created in 2000, the IRDT (Technological Development Research and Innovation) and the ADIT (Agency for the Development of Technological Information) created a Internet portal that federates most of the laboratories and research centres of Montpellier's three universities. This electronic portal (*Montpellier123.com*) essentially aims at ensuring the availability of localised resources and skills within neighbouring research laboratories. The electronic portal is expected to lead to a stronger interaction between academic skills and industrial needs. The purpose of the portal is to facilitate exchanges between a supply of academic skills and a demand for skills from small and very small-sized businesses. The method consists in simplifying academic knowledge and skills, to make them accessible and understandable to the general public.

Through these examples, we can note how fundamental the role of territorial authorities is, above all when development relies on SMEs. However, if the networks of innovation centres aim at spreading innovation to territorial firms, and particularly to the smallest ones, they must not be limited to local operators only. Some actors like universities or research laboratories can integrate international innovation networks. The innovation centre network will directly or indirectly benefit from these relations. Thus, the local innovative network enables small firms to come out of their isolation regarding innovation, while giving them, through connections between international networks, access to a technological environment that by far transcends the local territory. Fourcade (1993) describes the phenomenon as *transnational transnetwork synergies*.

So it appears that the competitive advantage of a territory is based on the ability for the different public and private players of the region to fit into interdependence relationships, which develop at a local as well as an international level. However these relations do not occur overnight. They take shape over time and there are many obstacles. SME owner-directors are reluctant to fit into network structures for fear of losing their autonomy and their independence. The network activation implemented by territorial authorities is thus all the more significant. These authorities also need to make sure that the territory does not retreat into excessive isolation. Research and advanced technology centres and territorialized networks have to engage with the rest of the world. The ability of a territory to last depends highly on national and above

all international extra-territorial relationships which local operators have established with other partners. Territorial authorities have to increase access to resources and skills spread throughout the world. For instance, as far as financing is concerned, the European Regional Development Fund (ERDF) is a European policy tool which notably aims at promoting cross-border and transnational projects involving SMEs from the countries of the community. This European financing is meant to assist SMEs with their entrepreneurial approach abroad, with obtaining partnerships or with achieving a technological research-development project. However, SMEs often find it very difficult to apply for these grants because of the difficulties they have in filling in grant application forms which seem too “technocratic.” Some territorial authorities, eager to siphon off financial aid from European structural funds and aware of this problem, have hired experts whose function is to make the steps to obtain these funds easier. Access can only work if a junction of the local network makes it possible to be connected to the global network. In other words, authorities have to organize their actions taking into account the proximity principle which governs the functioning of SMEs. Between two equivalent potential partners, an SME owner-director would rather choose the closer one. But the consequence of this proximity principle is that beyond a certain distance, the system is no longer obvious for a company whose resources are limited and whose skills, in terms of keeping up with technological innovations, are undersized.

In other words, it is not worth informing SME managers about existing European aid without at the same time giving the name of the department or competent person able to explain and assist. In other words, what first gives accessibility is proximity. Accessibility is the insertion of the global within the local.

In such conditions, the role of territorial authorities consists in identifying the best networks that create wealth and connecting network junctions to their territory. There is no accessibility in a network if there is no efficient and relevant proximity intermediary in the local area. It is not worth multiplying national or European aid or projects if we do not take the care to localise as close as possible to the operators, i.e. regions, even departments or cities, proximity measures of assistance and support.

Globalisation radically transforms the territorial issues and induces new missions among territorial authorities. The national territory is less and less homogenous, it is becoming fragmented and different, inviting new reflections about the notion of cohesion<sup>4</sup>. We are also shifting from a logic of development based on regulation and distribution to a logic of competitiveness and competition which implies a real management of territories in the administrative sense of the word. The proliferation of terms such as territorial strategy, territorial marketing, territorial prospective illustrates this managerial trend. Lastly, globalisation reduces the importance of the national scale and strengthens international prospects. In only a few years, we went from a national territory development to an international management of local territories.

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<sup>4</sup> See for example the world congress on *local clusters in the world economy* organised by DATAR (2001).

### **3. The Business Incubator for International Trade of Montpellier as an illustration of *internationalising milieu***

The example of a project currently being set up, implemented by the Foreign Service of the Chamber of Commerce of Montpellier, will serve as an illustration. Since 1998 and initiated by the foreign service director, the Chamber of Commerce has overseen the setting up of eight export groups. An export group is a group of small companies (from 3 to 5 in general) more often set up as a non-profit making organisation (conforming to the law of 1901) to be able to employ a time-sharing export executive. This organisation is flexible and completely adapted to SME characteristics because a small company exporting for the first time cannot afford to pay for the salary of a full-time export executive. One possibility is to resort to a kind of employment mutualisation to share both cost and risk. This system first requires, of course, a detailed feasibility study (namely the search for partners for the export group, balance of company sizes, assessment of synergies, avoidance of highly competitive situations to minimize subsequent conflicts of interests, common strategic studies, contract for employment and use of human resources on a time-sharing basis). The export groups' efficiency needs a strong proximity between players : geographical proximity to avoid the time-sharing export executive from spreading himself to thinly but also strategic proximity to set targets and work out a compensation plan for the time-sharing executive (incentive plan based on contracts and/or export volume).

The export group is a management facility which fully reflects the problematic at hand. This organisation is first of all very local in essence because geographical proximity is an essential constraint to make interaction easier between the various members of the group. Then, by making it possible for staff specialised in international trade to join local SMEs, this system has an international outlook. This kind of initiative corresponds to our concept of internationalising milieu. The predominant function of a territorial community in its capacity to gather companies together around a common strategic and organisational project is highlighted in the concept, as well as the network-mode, because the group is a particular type of association between SMEs. This system thus strengthens the density, the diversity and the dynamism of the internationalising milieu.

To benefit from this experience and to pursue more systematically the export group path, the foreign service aims to create a Business incubator for International trade. A real system of local development for international trade, this project is totally in line with the notion of local learning because it is innovative, pioneering, a creator of new structures, and based on knowledge and experimentation.

To provide the financing for this Business incubator planned to be located near the airport of Montpellier, the Chamber of Commerce has called upon the General Council of the department of Hérault within the scope of its territorial agreements and upon the Regional Industry, Research and Environmental Authority (DRIRE) to obtain European financing. The Foreign Trade Regional Department (DRCE) and the Foreign Trade Consultants network have also been approached to assist in the preparation and coherence of the presentation, within the framework of regional support and aid for foreign trade. Finally, and less predictably, the foreign service has invited the participation of the DESS (postgraduate degree specialised training courses) specialised in *International Management of SMEs and Territories* of the universities of

Montpellier. This approach aims at making it easier to train future export executives in order to meet the needs of the Business Incubator. This project fits into the local framework insofar as the DESS already includes alternating training periods in its educational project in order to train future time-sharing export executives.

The project has obviously taken a new dimension because of the increasing number of local organisations, and appears as a real collective project for local development with an international orientation. Firstly, this project aims to set out the conditions of a long-lasting local development and secondly to offer a link between local and global environments in order to connect more easily SMEs to the rest of the world. The foreign service of the Chamber of Commerce carries out what Fourcade (1993) has called the *networking activation* and, in this way, the fourth dimension of the internationalising milieu : directionality is introduced. This foreign service has become the coordinator of a collective project based on the past experience of the eight export groups. This project will give the opportunity to assert the technological dimension of company internationalisation. The international context is an ensemble of techniques, specific to international trade (incoterms, exchange rate management techniques) but is also a state of mind, a new logic on which depends company performance in the face of internationalisation. The technological characteristic of this project suggests the integration of the most stringent quality requirements. The fundamental objective to achieve this aim is obtaining certification according to the AFNOR X50-770 standard – a standard certifying business incubators since 1997 in France. This standard will guarantee the best level of professionalism as far as international support is concerned, and will represent a stimulating challenge for the business incubator members.

Moreover, this project strengthens "*institutional thickness*", according to Amin and Thrift's expression (1994). "This thickness is much more than the mere presence of institutions at the regional level. It is determined by a high interaction level and mutual awareness of common aims. In other words, regions have to adopt the principles of continuous training and knowledge creation. They have to become learning and knowledge creating regions." (Keane and Allison, 1999). The project of Business Incubator for international trade fits into this perspective.

Institutional thickness shows itself through an integrated network of supporting organisations and institutions including companies, financial institutions, chambers of Commerce (CCI), training institutions (universities, secondary education), employers' associations, local political authorities, development agencies, innovation centres (incubators) local government offices and regional government services. Thickness is not limited to the presence of institutions but it also comprises interaction synergies, collective representations and common aims. "Institutional thickness favours confident relationships, stimulates entrepreneurship and consolidates industry local embeddedness" (Amin and Thrift, 1994). This is a federative project since it impulses the development of export groups and aims to network them in the context of the Business incubator. There is therefore a double mutualisation: on the one hand, SMEs belonging to export groups are mutualising, and on the other hand the different groups within the business incubator for International Trade are mutualising too.

## **Conclusion : the Win-Win-Win perspective**

In this study, globalization is seen as a particular kind of innovation that justifies an approach in terms of milieu but only if proximity structures for innovation support (of the incubator type, technopoles, venture capital) are replaced by internationally-oriented proximity structures (such as the External Service of consular offices, export clubs, regional agencies for territorial marketing, like DATAR in France...). The analysis of SME glocalization strategies in terms of “internationalising milieu” appears to be profitable because it helps to understand how SMEs can reconcile the globalization constraint with the logic of proximity linked to their management style. Moreover, it can show that SME glocalization is not a one-off autonomous action but a real process, permanently calling upon external resources. This concept suggests that most of the SMEs do not act on their own in the international field but only with the help of companies in the area where they are set up. Exporting does not necessarily mean leaving the local area. On the contrary, an exporting SME is going to prefer proximity skills and therefore globalization depends – no matter how surprising this may seem – upon local development. Globalization is not incompatible with a local establishment. Highlighting the territorial dimension of SME glocalization strategies must encourage territorial authorities to take this dimension into account. Local development strategies cannot be reduced to the local dimension only, but must be part of the globalization of the economy. Management of the local in favour of the international is a concept which should become more important in the future, and should become a fundamental objective for local development strategies. In front of globalization, SME management must be linked to management of territories. That is what we call *internationalising milieu*. Territory is no longer neutral and seen as a simple receiver but becomes a strategic variable that makes easier the insertion of the company into its environment both local and global and encourages community behaviour.

In contrast to the globalization strategies of multinationals which consider territory as a simple geographic area with physical or economic characteristics which are directly exploitable, one can propose *glocalization strategy* that combine both a high global integration and a high local integration, more in keeping with SME management specificities. Thus, territory becomes part of the strategic formula that the company must take into account. Glocalization highlights the existence of a dialectic relationship between SME Global Management and Territory Global Management. It also suggests a more intimate link between territorial community economic development strategies and company strategic decisions, between public and private spheres, in short, a business philosophy based on the *Win-Win-Win* (Baudry, 1999). As far as we are concerned, Win-Win-Win refers to a business situation in which all players are winners (Win-Win game of the Game Theory) and to which we add a third player in order to integrate the territorial dimension. Some projects, more than others, create positive synergies for players but also create positive externalities, which are profitable to territory as well (job creation, trademark valorization, strengthened industrial and technological potential). The Win-Win-Win theory is an incentive to integrate territory in the actors' business strategies. It leads to a business philosophy based on a value creation, cooperation and above all long-term development, in which the main motivation for action is to win along with the others ("I win, you win and territory wins"). This philosophy is the opposite of the classical competitive game leading to a winner-loser configuration which is very often associated with environmental disorders (contamination, unemployment, multiplication of mergers, etc.).

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