

The internationalization process of Niche SMEs in France

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Summary

The scholars provide numerous findings on the process of firm internationalization. However, there remains still a research gap in understanding the process of internationalization of niche SMEs, despite their strategic interest in France. The paper investigates the entry modes of SMEs to international markets and provides a deeper insight into the internationalization process by using an abductive exploratory approach. The results show hybrid forms of internationalization that traditional internationalization models only partially take into account.

Keywords: internationalization, niche SMEs, international entrepreneurship, French SMEs

JEL: F20, L20, L26

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Introduction

Since the work of the Uppsala school (Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977), the process of internationalization of the firm has been heavily investigated in management science (Stainhauser, Paula, & de Macedo-Soares 2021). The first works on the subject concerned only large companies. However, since the nineties, SMEs have increased their presence on international markets to such an extent that internationalization has become a survival strategy in a global world (Dominguez & Mayrhofer 2017). According to Bell et al. (2004), factors such as the constant change in consumer preferences, the development of communication and technology, and changes in competitive conditions provide a favorable environment for the internationalization of SMEs.

The importance of SMEs for economic activity, employment, innovation and wealth creation is recognized worldwide (Escaloni & Mareque 2021; Haddad et al. 2020; Katua 2014). According to the OECD (2019), SMEs contribute, on average, to 50% of the global GDP and create 70% of national employment (ILO 2019). In contrast, they are responsible for only 30% of world exports (OECD 2021). There is an evidence in most OECD countries that up to 25% SMEs participate in manufacturing export as compared to large companies whose exports account for 90%. However, the contribution that SMEs make to overall trade is much more important when taking into account their role in indirect exports as suppliers to internationally operating larger firms, as well as when considering other sectors beyond manufacturing (OECD 2021).

In 2018 over half of exporting SMEs experienced a robust revenue growth of 5% or more, compared with just over one-third for non-exporting SMEs (Bpifrance et al. 2019). The coronavirus pandemic has had a significant impact on trade over the world merchandise trade dropped by 9.2% in 2020 (WTO 2020). In 2020, small and medium-sized enterprises (SMEs) in France recorded a 3.7% decline in turnover. Their value added fell more sharply (by 4.2%) due to the slowdown in output. Thanks to an adjustment in their spending and the unprecedented scale of the support measures of the French government, SMEs' profit margin rate contracted by just 0.3% (Banque de France 2021).

One of the reasons for small and medium-sized enterprises (SMEs) which operate in niches is to avoid competing directly with large companies (Audretsch, Prince, & Thurik 1999). A niche is understood as a market represented by a small group of customers who have similar and specific needs in terms of the products and services offered to them. Additionally, a niche is characterized by the fact that it is free from competitors (Dalgic & Leeuw 1994). The niche has been becoming the basis of competitive strategy for many SMEs (Audretsch, Prince, & Thurik 1999), and the international expansion of SMEs is most often accomplished by

selecting a foreign market by ex-ante choices based on the enterprise's resources and capabilities (Audretsch, Lehmann, & Schenkenhofer 2018). Then, companies open similar niches in further countries. (Cannone & Ughetto 2014).

There is still some inconsistency with empirical findings of ex ante international targeting in such business circumstances of market uncertainty. For many entrepreneurs the starting point for selecting a foreign market is relying on the market perspective and resources available. Then, the enterprise commonly with partners increase these resources through experimentation and business trials (Chetty, Ojala, & Leppaaho 2015).

The conceptualization of the term of niche SMEs refers to the ways in which these companies operate and respond to market conditions. In this aspect, the main scientific research is taken to understand the choices of niche markets by the firms. The niche therefore represents for the enterprises the evolving resource domain (Odlin & Benson-Rea 2021).

According to Hannan, Carroll and Polos (2003) who referred to the niche-width theory (Freeman & Hannan 1982; Hannan & Freeman 1977; Pe'li 1997), the niche is defined as the region of a resource space in which an entity (in this case an enterprise) may continue its business in the lack of competition. The niches determine the fit between the enterprises and the business environment. Niches are changing as market counterparts enable or restrict access to resources, or as the value of these resources changes. Preventing access to resources required for value creation, competitors can direct SMEs into new niches. The scholars underline that the niches are dynamic in terms of changing the requirements for the available resources and values over time (Odlin & Benson-Rea 2021). The response to this situation is the internationalization processes of niche SMEs, in which companies seek opportunities for new markets, value creation, shaping business models and their activities. A niche allows a firm to differentiate itself by offering a product or range of products. Few (or no) firms can produce or operationalize processes that few (or no) firms are able to practice (Baum & Oliver 1996; Carroll 1984, 1985). As technology advances become more complex and more globally networked, the niche market must continue to expand (Knight & Cavusgil 1996).

This research focuses on some French firms operating in niche markets. The choice of niche SMEs in France came about for two main reasons. First, due to several empirical studies, there is an evidence that has shown that such firms, often in highly specialized technological niches, are more successful in conquering foreign markets than other SMEs (Mc Dougall 1989; Knight & Cavusgil 1996; Madsen & Servais 1997; Moen & Servais 2002; Andersson & Wictor 2003; Stachowski 2012; Zucchella et al. 2016; Bagheri, Mitchelmore, Bamiatzi, & Nikolopoulos 2019). Secondly, a few studies have investigated the importance of niche strategies as a key factor for small firms' internationalization in France.

The objective of this research is to understand how the internationalization process unfolds in medium-sized French firms located in a niche market. The paper addresses the research question, which is: Does the international process of French small and medium-sized enterprises operating on international niche markets reflect the theoretical concepts including the experiential learning, resources and skills and network as the main drivers for international development? As our approach is holistic, we wanted to include several theoretical frameworks in this research, thus applying the recommendations of many researchers (Coviello & McAuley 1999; Fletcher 2001). Through an abductive exploration, we wanted to confront existing theories with practice of the French SMEs.

The paper provides two contributions. First, it is a research attempt to investigate the main characteristics and motivations of niche SMEs in their internationalization process. Secondly, the paper contributes by developing the existing approaches concerning SMEs entry modes to international markets, and revisits the consideration of traditional models by presenting hybrid forms of internationalization used by the French niche SMEs.

The paper is structured as follows. In the first part, we will briefly review the major theories that concern the internationalization process, including the entrepreneurial approach. We will then present three cases of French companies located in a market niche. In the third part, we will finally discuss the results in the light of our theoretical framework and the specificities of our research object.

Theoretical framework of the research

In this research, the term of internationalization process will be used in the sense proposed by Welch and Luostarinen (1998), who define it as *a process of increasing involvement in international markets*. In this framework, we can distinguish two main theoretical foundations concerning the internationalization of SMEs: the first corresponds to the so-called *traditional* approaches, the second is relatively recent and is often referred to as the *entrepreneurial approach* or *the international entrepreneurship approach*.

These traditional approaches include the experiential learning, resource and skills, and network approaches. The experiential learning perspective includes the Uppsala model (Johanson & Wiedersheim-Paul 1975; Johanson & Vahne 1997) and the Innovation model (Bilkey & Tresar 1977). In these models, internationalization is seen as an incremental process. The firm gradually accumulates experience and knowledge.

In the Uppsala model, the firm begins internationalization with irregular and opportunistic exports (the mode of entry considered the least risky) to the markets

closest geographically or psychologically. Then, with the experience gained in these markets, the firm tries to conquer more distant markets. At the same time it employs independent agents from neighboring countries. The next step is the opening of a branch office or a distribution subsidiary and then a production subsidiary. With each new stage of internationalization, the company becomes more and more committed to internationalization and is willing to devote more resources to this activity.

Johanson and Vahlne (2009, 2011) and Vahlne and Johanson (2013) revised their model by underlaying the importance of business networks and strategies for internationalization process. The success of networks depends on a psychic distance perceived by managers as well as learning capacities and experience of partners. Johanson and Vahlne (2009) showed that existing business relationships allow for identifying and exploiting new opportunities. They influence the mode of entry and the choice of the business expansion. These relationships offer potential for building trust and commitment, two important aspects for expanding into foreign markets. Vahlne and Johanson (2013) recognized that the internationalization process may also be influenced by strategies implemented by entrepreneurs.

The Innovation model compares internationalization to an innovation process. For Bilkey and Treasar (1977), Cavusgil (1980) and Reid (1981) each stage of internationalization is an innovation for a firm stimulated by external (“push”) or internal (“pull”) forces that cause internal change and the transition from one stage of internationalization to the next.

Penrose (1959) first introduced the notion of resources and competencies by defining the firm as *the totality of productive resources* and by emphasizing the crucial role of the competencies of managers in the firm’s growth process. Competencies like marketing skills (Andersen & Kheam 1998) and competent employees (Leonidou 2000), innovation and technological know-how (Lecerf & Omrani 2020), social capital (Prashantham & Dhanraj 2010) all contribute towards SMEs internationalization. Leveraging these resources allows firms to gain that sustainable competitive advantage in the international market (Roy et al. 2016). The skills of the management team are considered as a factor of success in the internationalization process (Yamakawa et al. 2013; Forgues & Leconte 2000; Van Den Bosh et al. 2003). Not all the resources possessed by a firm give it a competitive advantage and sustainable rents (Amit & Schoemaker, 1993). Only strategic resources are sustainable and can provide a competitive advantage. From the perspective of gaining the competitive advantage they are scarce, idiosyncratic, difficult to transfer, and difficult to imitate. Talleman and Fladmoe-Lindquist (1994) present a model of the resource approach to internationalization in which the internationalization process is characterized by the availability of resources and the interest in developing organizational learning capabilities.

The network approach was developed by the Uppsala school. Johnson and Vahlne (1990, 2009) emphasized the importance of a firm's network in explaining the motivations and modalities of internationalization. Johanson and Mattson (1988) define three stages through which the firm integrates into the international network: extension (the development of new investments), penetration (the development of firm resources and positions within the network), and integration (network expansion and coordination). They then identify four internationalization situations in which international strategies are linked to the needs of knowledge development and adjustment of relationships in a network: the first entrant, a single international, the last entrants and the international among the others. In the last case, where the firm and the networks are highly competitive and internationalized, the internationalization through a network may appear, for small firms, as the best strategic alternative thanks to acquisitions, cooperation, alliances and joint-ventures. The relationships in the network can also determine the way of entering foreign markets or even prevent the internationalization of the firm. Firms in the network are mutually dependent through cooperative or competitive relationships (Coviello & Munro 1997).

Networking diffuses internationalization practices in an efficient way and allows entrepreneurs to imitate the strategies of networking partners (Milanov & Fernhaber 2009; Zhou et al. 2007; Agndal & Chetty 2007). Lu et al. (2010) explain that institutional capital and the information acquisition capability of a small firm will positively influence their international performance.

In this theoretical framework, we can include the approach by the motivation and the strategy/vision of the leader, the one by the development of opportunities or finally, the concept of fast internationalization firm. Theories of international entrepreneurship have emerged from the differentiation between the behaviors of international firms and smaller firms (SMEs). The strategies of SMEs and their internationalization processes are determined by the possession of limited resources (Julien 2005). Due to Marchesnay (1992) the large firm models its environment, the medium-sized firm adapts it, and the small firm integrates it. Hence, we often speak of the strategic determinism of SMEs (Saporta 1997). Under these conditions, the internationalization process of SMEs is an ad hoc process and export activity is *at best... unplanned, reactive and opportunistic* (Bradley & Mitchell 1986; Westhead et al. 2002). Strategic opportunities are the result of a strategic process characterized by effort and luck combined with vigilance and flexibility. The SME is characterized by its flexibility, so it must make an effort, which here may be insertion in a quality network, and it must be alert to capture and seize opportunities (Deurell et al. 2003).

Mintzberg (1973), Timmons, (1978), Gibbs and Scott, (1985), Shuman and Seeger, (1986) observed that the success factor of the expansion of SME is the strategic planning established by the leader in a hierarchical way *top-down*. In this

context, the absence of an explicit and formal strategy does not mean that the strategic vision is non-existent. Strategic planning becomes more formal and sophisticated as the firm's life cycle progresses (Bell et al.). SMEs can also apply voluntarist strategies (Metais 1999), for example, thanks to the technological advantage, the SME can even transform the targeted niche market (Fernandez & Noel 1994). Since the nineties, researchers have noted the appearance of rapidly internationalizing SMEs. Some researchers have observed the emergence of *born global firms* (McKinsey et al. 1993; Madsen & Servais 1997), or *international new ventures* (McDougall et al. 1994; Oviatt & McDougall 1994) or *knowledge-intensive firms* (Bell 1995; Boter & Holmquist 1996; Coviello 1994; Jones 1999), which are characterized by very active entrepreneurs. The leaders of these firms have an international vision of development from the outset (Jolly et al. 1992; McKinsey et al. 1993; Bloodgood et al. 1996). These companies are a source of significant value added, often through process or technological innovations (Knight & Cavusgil 1996). International entrepreneurship is thus defined today as *a combination of innovative, proactive, and risky behavior that crosses national boundaries and is intended to create value in the organization* (McDougall & Oviatt 1997, 2000). International New Ventures operate globally from commencement and internationalize faster than traditional (Chetty & Campbell-Hunt 2004; Knight & Cavusgil 2004). Chetty and Campbell-Hunt (2004) demonstrate that INVs adopt a more rapid and proactive approach to learning. An INV's decision to internationalize at inception is influenced by the size of the domestic market, production capacity, location advantages and institutional factors (Fan & Phan 2007; Oviatt & McDougall 2005).

The broad theoretical framework we have just outlined is often chosen to analyze the internationalization process of multinationals and SMEs. We would like to investigate if it can also be applied to very specific French SMEs, located in international market niches. Our research question is therefore the following: *Does the international process of French small and medium-sized enterprises operating on international niche markets reflect the theoretical concepts including the experiential learning, resources and skills and network as the main drivers for international development?*

Methodology

Our study can be characterized as an abductive exploratory research. Since our objective is to understand how the internationalization process unfolds for medium-sized companies employing niche strategies, we have an abundant theoretical framework at our disposal regarding the internationalization process. On the other hand, the object of research (medium-sized technological niche firms) is new. It

was therefore necessary to go back and forth between theory and the field in order to understand the process, and to detect the differences and similarities between the traditional theories and the results of the field by adopting an abductive approach.

In abductive approach, the research process starts with surprising facts or puzzles and the research process is devoted to their explanation. Surprising facts or puzzles may emerge when a researcher encounters an empirical phenomena that cannot be explained by the existing range of theories. When following an abductive approach, researcher seeks to choose the best explanation among many alternatives in order to explain 'surprising facts or puzzles identified at the start of the research process (Dudovskiy 2018).

The choice of the qualitative method of multiple cases proved to be adapted to our research objective: a complex, current and contextual phenomenon over which the researcher has no control (Yin, 1998). We selected three companies based on the following criteria:

- medium-sized companies according to the EU definition, whose size does not exceed 250 people and whose capital does not exceed 50 million euros, and the assets of the balance sheet do not exceed 43 million euros;
- companies that are located in a niche market;
- companies that operate internationally;
- companies that are anchored in the same territory (the Haute Loire department) which is not a border region.

The SMEs are considered to be very heterogeneous, and the selection criteria allowed us to refine our research in order to compare the results more easily.

Our companies are located in market niches. They are differentiated in three ways: firstly, they offer highly specialized technological niche products; secondly, the added value of the product is created by the French designer; and thirdly, they display a *made in France* label.

Data collection

Most of the empirical material was collected through semi-structured interviews with managers who had a decisive and operational role in the internationalization strategy of the three Haute Loire companies (directors of the export, marketing, and finance departments). We compared our initial theoretical knowledge with the results obtained during these interviews. The collection of secondary data (internal companies documents, press articles, company websites in the period of time of 2012–2021) allowed us to gather additional information. At the request of the managers, the names of the companies will not be disclosed, we will call them *Les Tissues*, *Hygiène* and *Emballages plastiques*.

Table 1. Data source

Method	Data type	Quantity	Original data source
Multiple Case Study	Semi- standardized Interviews	9 (3 per Company)	Interviews with co-founders and export and marketing managers
	Internal documents	18	Presentations, reports, meeting minutes, notes, memos
	External documents and sources	21	Company website, news articles, industry reports

Source: based on the case study

The characteristics of the companies examined in the study is presented below.

CASE 1: *Les Tissues*

Les Tissues company is a family-owned SME created in 1986. It specializes in the manufacture of high quality fabrics. Today, the company employs 50 people at its headquarters, but it is part of a group that includes a total of 120 people. The turnover of this group amounts to 10,7 billion euros (evidenced at the end of 2020, <https://www.if-saint-etienne.fr>), 70% of which comes from international activity. It was not until the mid-1990s that the company began to expand internationally. For the main reasons that French market had become too small as the lifestyle and needs of the French consumer changed and the demand for high-end fabrics decreased. According to the director of the export and marketing department: ... *modern French women rarely have the opportunity to wear an evening gown and above all they don't want to wear and they don't want to pay a lot of money for it.* Currently there are seven people in the export department of which three are at the company's headquarters.

Les Tissues company has a wide range of international contacts and uses them in the different stages of value creation. The raw materials are imported from Asia (China), then the fibers are dyed in France and a French stylist creates the shapes and design of the fabrics. Then, 70% of the already transformed fibers are sent to subcontractors in Italy, the rest is woven in France. Then the export and marketing department prepares two sample catalogs for a summer collection and another one for winter. These catalogs are sent to agents in 14 countries around the world and to direct customers in Belgium and Germany as well as to a wholesaler in Spain (see Table 2).

Table 2. Forms of access to the international market according to destination: “Les Tissues company”

Country	Entry mode	Cooperation duration
Belgium	direct export	24 years
Germany	direct and indirect Export (2 agents)	24 years
United Kingdom	indirect export (1 agent)	24 years
Spain	indirect export (wholesaler)	24 years
Holland	indirect export (1 agent)	24 years
Tunisia	Subsidiary	23 years
Portugal	subsidiary	18 years
Poland	indirect export (1 agent) subsidiary	13 years 6 years
Greece	indirect export (1 agent)	13 years
Russia	indirect export (1 agent)	12 years
Slovakia	indirect export (1 agent)	12 years
China	purchasing office	12 years
Taiwan	indirect export (1 agent)	12 years
Finland	indirect export (1 agent)	12 years
Sweden	indirect export (1 agent)	12 years
Denmark	indirect export (1 agent)	12 years
USA	indirect export (2 agents)	12 years

Source: based on in-depth interviews and materials from websites of the company in 2012–2021

The company’s competitive advantage, according to its export and marketing manager, is based on its high quality product, directly linked to the use of a very specific technology and the employment of an innovative French designer (know-how). The company is a well-known brand in France and internationally, which also facilitates access to markets.

Germany is the first foreign destination of this company (20% of the turnover is realized there, evidenced at the end of 2020). The company has direct access to four important customers and also employs two agents met at a fabric fair. *Les Tissues* company operates mainly internationally through its network of agents. According to the export manager, this is the most effective and least risky form of access, given the limited resources available. He recognizes that the choice of the country and the agents was the result of an opportunistic strategy. The company did not conduct a thorough analysis of the international market. The sources of information constitute the fair trades of fabrics where all the professionals of this sector meet. The management of the group knows the importance of agents, and four years ago it bought a company with the aim of taking advantage of the agent networks of this company. As a result of this acquisition, the group has acquired two successful agents in the United States.

The dependence on one agent proved to be detrimental to this company. If an agent in a foreign country becomes inefficient or absent, it has direct impact on sales as the replacement is difficult to provide. But the company’s biggest

problems internationally are not the agents but the high payment risk. Even though the Russian and Brazilian markets look very attractive, it is difficult for *Les Tissues* to secure payment from these customers. The successful subsidiaries were open in 1998 in Tunisia and in 2003 in Porto (Portugal).

The company also tried to open a production subsidiary in China. The subsidiary operated for two years and then closed. The objective of this factory was to produce ready-to-wear clothing, as clothing was a new sector for this company. The project was led only by one person who had experience in this field, from the moment she left the company, the factory experienced very big losses.

CASE 2: *Hygiène*

Hygiène company is also a family business. Established in 1962, it produces different types of chemicals, including disinfectants used in animal husbandry. It employs 112 people, of whom only two are working full time internationally. The turnover amounts to almost 21,5 billion euros (data from 2020, <https://www.societe.com>), 88% of which comes from international sales. *Hygiène* company sells its products in 60 countries. Its products are highly specialized and of very good quality (they have several ISO certificates), the company is considered a European leader in the production of certain chemical products.

Hygiène company started its internationalization process by opening a subsidiary in Spain. The idea came directly from the owner, who wanted to replicate the company already existing in France. It turned out to an unsuccessful venture because of lack of reliability of their Spanish partner. He had three parallel accounts, two of which were in Spanish, and the control of this activity by the parent company was insufficient. The company closed its subsidiary and lost a large part of its capital. Thanks to public aid, the company has resumed its international activities. For example, UBI France financed the first international trade shows. Today, the company has a network of agents and distributors in 60 countries around the world. It has a subsidiary in Spain, but this time it is a distribution subsidiary. Production subsidiaries are not currently being considered because the management fears a technology drain. In addition, production in low-cost countries can lead to a decrease in quality. The company also benefits from its *made in France* reputation, which also slows down delocalization. On the other hand, it is obliged to export because the French market is too small according to the specific characteristics of the product (niche product).

CASE 3: *Emballages plastiques*

Emballages plastiques company was created in 1992, but is part of a group founded in 1968. The company employs 65 people for 375 employees in the group.

The turnover of the group amounts to 62 billion euros (evidenced by the end of 2020, <https://www.if-saint-etienne.fr>). The company is among the top five European companies in the production of plastic packaging.

The competitive advantage is the know-how in packaging and especially, the conception and design of the products. The company is very innovative in this field, every two years it offers an innovative range of products. 50% of the turnover comes from foreign sales (evidenced by the end of 2020, <https://www.if-saint-etienne.fr>). The company has neither an export department nor an international department. As the financial director says, *all of them are assigned to exports*. The company is divided by activities: design, production, marketing or *financing* and internationalisation is an integral part of each of these activities. Decisions on international strategy are taken by the president after consultation with the other members of the management committee. Meetings are held once a quarter. Downstream, analyses of foreign markets are carried out. The company has the studies done by a specialized firm and obtains information from the Economic Missions of the French Embassy. The president makes the final decision whether to open a subsidiary or to participate in an international fair.

The company offers special products. As their director of marketing stated: *We transport a lot of 'vacuum' and the volumes are very large, so the transport costs are very high. The unit margin is very low.* First of all, the company adopted a strategy of proximity to reduce these costs.

The conquest of foreign markets started with Spain, then Germany, Benelux countries, the Great Britain and finally, Italy. The second phase consisted in entering the Eastern European countries. In order to avoid transport costs, the company opened a manufacturing plant in the Czech Republic in 2001. Today this subsidiary employs 30 people and is organizationally independent of its parent company. The Czech factory supplies the markets in Poland, Slovakia and Hungary. In 2016 *Emballages plastiques* merged with a German medium-sized family company, founded in 1965. This German firm proposes a complementary technology (extrusion blow-molding, the 1-stage and 2-stage injection-stretch blow molding as well as the waste-free 4-layer coextrusion).

Emballages plastiques company's first step in finding foreign markets is to prospect for end customers. When the number of customers becomes important, the company looks for an agent to take care of all the customers.

The list of potential customers is provided by the French embassy. Public aid from UBI France, Coface, the CCI and ERAI are also taken into account. The next step is often taken on site by the President and/or his financial director. Today *Emballages plastiques* is constantly on the look for economic opportunities and for markets with potential, *often lagging behind developed countries*. The management board recently tried to open a production subsidiary in North Africa, but the project was abandoned. The financial director mentions the cultural difference,

particularly in terms of the financial and banking culture. *The financial side is obscure over there, especially when it comes to repatriating funds to France, and the administrative procedures are so slow.*

Table 3. Entry modes to the international market according to destination: “Emballages plastiques” company

Country	Entry mode	Cooperation duration
Spain	direct and indirect export (1 agent)	26 years
Germany	Commercial Office	26 years
Benelux	indirect export (2 agents)	26 years
UK	indirect export (1 agent)	23 years
Italy	indirect export (1 agent)	23 years
Czech Republic	Subsidiary (factory)	18 years
Poland	Commercial Office (1 agent)	16 years
Slovakia	direct export	16 years
Hungary	direct export	16 years
Germany	Subsidiary (factory)	5 years

Source: based on in-depth interviews and materials from websites of the company in 2012–2021

The company is considering Russia as its next destination, as many of its French clients are already present in that market, but *the financial and administrative side* is holding back the initiative.

Data analysis

The internationalization process of the three examined companies cannot be described as incremental, even though all three companies started the conquest of foreign markets with neighboring markets. Table 4 presents the scope of international expansion providing the percentage of foreign sales and the number of foreign destinations.

Table 4. International scope of the three niche SMEs

Company’s name	Foreign markets (number)	International sales (% of turnover)
Les Tissues	17	70
Hygiène	60	88
Emballages plastiques	10	50

Source: based on in-depth interviews and materials from websites of the company in 2012–2021

Les Tissues company had two phases of internationalization: the first in the mid-1990s when it exported to neighboring countries and then the second 2003–2004 when it exported to more distant countries. We note that the mode of entry

into international markets remains unchanged: the employment of an independent agent. The attempt to open a subsidiary after more than ten years of international experience proved to be a failure.

Hygiène company skipped all the internationalization steps of the Uppsala model and started the internationalization by opening a subsidiary. When this subsidiary went bankrupt, the company turned to direct and indirect exporting and, even though the company cooperates with 60 countries and has forty years of international experience, it does not want to switch to another mode of entry.

Emballages plastiques company corresponds perfectly to the definition of a *born global firm*, where the internationalization process has been very rapid. It is present in five countries after four years of operation. Even though the subsidiary was created after eight years of international experience, the motivations were not related to experiential learning but rather to the accessibility of new markets and the specificity of the product.

We had to open a subsidiary because our transport costs were becoming too high, we transport a lot of empty space and our margins are very low – says the financial director.

The company begins by looking for potential customers and/or agents in the country. *Even if the agents are often chosen in an emotional way among candidates who come to the company's stand at the trade show* as the export manager of *Les Tissues* company says. Direct and indirect exporting are considered low-risk modes of entry, hence the fact that geographic or psychological distance does not hinder expansion. *And if we fail, too bad, the costs are not so high, the agents are paid on the provision of sales, so it costs us the price of the samples sent, but we learn every day* says the export manager of *Les Tissues* company.

Les Tissues and *Hygiène* companies do not consciously want to switch to another entry mode. They do not plan to open a production subsidiary for their key activities because the transfer of technology to the subsidiary could be too costly (in terms of control) or risky (difficult to guarantee quality at a distance). These companies also benefit from the reputation conferred by the *made in France* label, so relocation could threaten their reputation.

As the export manager of *Hygiène* company said: *We tried to produce in Asia, but each time the products manufactured had a different chemical content. Our product is known thanks to our quality, we cannot afford the slightest error* or as the export manager of *Les Tissues* recognizes *our weaving technology is very complicated, it is a traditional technique acquired for decades, it is impossible to learn it for the Chinese in a short term and if they learn they can copy us quickly.*

This approach can be spread in French SMEs located in a market niche.

Communication and transportation costs have decreased significantly over the last fifty years, and new contacts can be made in geographically distant countries without incurring costs (internet, satellite). The cost of failure has also

decreased: sending catalogs and samples is not very expensive, and what the company really loses in case of failure is the time of the manager and his/her team, which can cause the company to be overtaken by its competitors in another market. Therefore, Human resources become a key resource, as the export manager of *Hygiène* company says:

The human resources in my export department are limited, some destinations are tempting, for example, I would like to develop a market in Argentina but I do not have time ...

Despite the abundance of resources, small and medium-sized companies cannot afford to try several destinations at once in order to diversify their risks. Therefore, contrary to theory, the possession of financial or linguistic resources does not necessarily determine international success. *Les Tissues* company has half the sales of *Emballages plastiques* company but it exports to eight more countries than *Emballages plastiques* company. The people who deal with international business in both companies speak only English. In *Les Tissues* company, the power of decision concerning international business is centralized in the hands of the head of the department, but he admits that *it is the financiers who rule in the company*. The head of the export department is ultimately dependent upon the financial director, who grants the budget (financial means) available for international operations. Even participation in a trade fair is subject to the authorization of the CFO. In *Emballages plastiques* company, the CFO is directly involved in the internationalization process, which makes it easier to obtain resources.

Companies find ways to get around the obstacle of insufficient resources. For example, the lack of financial resources obliges the export manager of *Hygiène* company to optimize their operations: *I took my suitcase with the products and attacked a geographical area. When I went to the Maghreb, I did five neighboring countries in a row, I did the same thing in Asia, I started with Thailand and I finished with Malaysia, it costs the company much less*. The company knows how to use its own resources. According to the words of the export manager of *Les Tissues* company – *the wife of the sales manager was Slovak, so thanks to her we developed the market in Slovakia and the Czech Republic*.

The lack of resources or inadequate allocation can be a cause of the failure of the international operation. According to the export manager, this company (*Les Tissues*) did not have enough experience, either in the garment sector or on Chinese territory, to succeed in its establishment in China. *“The financial and human resources allocated to this operation were too limited and the cultural distance aggravated the situation.”*

The three companies stressed the importance of external resources, especially state aid for exporting companies. *Les Tissues* company acknowledges that it regularly receives assistance from the Chamber of Commerce and Industry, UBI France and Coface.

We can indeed see that these three companies operate and benefit from different types of networks. It is evident in the statement of the export manager of *Les Tissues* company:

Everyone knows each other in this business, so the agents know each other and it is how they give us the contacts of other agents.

The director of *Hygiène* company also recognized that *the network of colleagues who are in the same sector helps him a lot in the decision making process we pass on information, experience and contacts. You have to be international to be part of networks.*

During the interviews we noted the existence of two other types of networks: networks related to the business environment and the personal networks of the manager (their former contacts, colleagues or ex-employees living abroad, etc...)

The French business networks typically include banking, legal and public institutions. As the financial director of *Emblazes plastique* says: *competition is fierce in this sector, therefore, there is not much cooperation between professionals in the same field. But in Europe everything is easy, we have our French network, especially the Franco-Spanish or Franco-Polish law firm, we have our banks on the spot.*

Based on interviews, it emerges that the networks can also impose certain informal impact. For example, the export manager of *Les Tissues* said that *even if the agent in Great Britain is getting older and less efficient than he was before, we cannot break off a cooperation with him after 15 years of work, it is not done in our environment.*

In all three case studies, the main decision-maker at the international level was a young person (between 34 and 40 years old), with a master's degree, dynamic, with high mobility to travel abroad (spending at least five days a month abroad), with a broad sense of responsibility (father or mother of a family), creative and proactive. They were the export manager of *Hygiène* who decided to go into markets that are too small for multinationals, or the manager of *Emballages plastiques* who opened a subsidiary in Eastern countries to avoid transport costs.

According to our interviews decision-making processes depends on very subjective forces as on the "feeling" and hunches of the manager, human aspects that are very difficult to classify and detect. As the export manager of *Hygiène* points out: *Even if I check my information and the contacts I get during my travels with the French embassy or in my network, success often depends on the people and the relationships I managed to establish during these face-to-face contacts.*

If it is a question of the manager's internationalization strategy, the export managers of *Les Tissues* and *Hygiène* recognize that they do not have a formal strategy, but they try to find their own way to expand their activity. As the director of *Hygiène* said:

Our internationalization strategy was not laid down on paper, but I follow the sectoral studies, in particular, those of the Food and Agriculture Organization... but everyone follows these statistics and does the studies in the same way, the results are obvious, the biggest market is the United States except that everyone goes there, the market is saturated... I go to places that are not known, that are not taken into account in the statistics because of the small size of the market. This is how I discovered Libya.

Emballages plastiques company acts in a different way. It prepares its strategy in a very detailed way (employing expert firms, etc.). With reference to the statement by the company representative: *We can perhaps look for the explanation in the nature of the product: the packaging which, at the unit, gives a very weak margin, the company is thus in search of very important outlets, and the competition in this sector is very ferocious.*

These three managers are nevertheless confronted with strategic determinism: their national markets are too narrow to survive, which is consubstantial with niche markets, they are obliged to look for new markets outside their borders to grow and survive.

Les Tissues and *Hygiène* are constantly looking for opportunities and are the examples that their managers make decisions based on emotional motives, or that they grab the opportunities.

Hygiène's export manager acknowledges that his international network was created by chance, initiative and meetings at international trade shows. *I found my first sales agent in Asia thanks to a phone call. My English customer started to sell his products in Asia, he called me and asked if I would follow him, he even proposed a person on the spot. The other time it was my former employee who contacted me, he got married in Germany and offered to be my agent. Emballages plastiques*, on the other hand, leaves nothing to chance, everything is planned and checked.

Emballages plastiques can be considered as a fast internationalizing company. It is present in five countries after four years since its creation. Even if this company was created with an international vocation (to the point that the international dimension is an integral part of all the services and that the export department does not exist), we cannot confirm that the manager accepts risk-taking easily (the market studies are deep and the decisions are delayed in time). On the other hand, the strategy applied is a global strategy with the production of global products adapted to international markets. Our research highlights the fact that the manager considers the business network as hostile. This may reflect the fact that this company is in a more intense competitive universe than the other firms studied. In addition, since the stakes are higher, the strategies are more aggressive and less cooperative.

Findings

None of the three examined companies followed the traditional, incremental internationalization process, even though they started the conquest of foreign markets by neighboring countries.

For these companies we can each distinguish two phases of internationalization:

- the first experience in neighboring countries;
- the search for opportunities according to the product, regardless of the geographical and psychological distance from the host country.

The niche SMEs can be also born global.

The most common mode of entry is direct and indirect export because they are considered less risky.

These niche SMEs possess the specific technologies that constitute their competitive advantage, the complexity of this technology and the risk of the leak of this technology to competitors hinder the development of the production facilities in the foreign markets. The local employees are considered to have difficulties in learning new technologies and the quality of the products is often considered not sufficient. Moreover, the French SMEs consider the “made in France” label as crucial so the managers are not motivated to delocalize the core production abroad. These results differ from the non-niche SMEs internationalization process stages and their mode of entry because usually the subsidiaries are opened as the last fifth stage of implementation (Dominguez & Mayrhofer 2017).

The availability and competences of human resources are considered by managers of the investigated companies as the most important to expand the commercial activities to foreign locations. Therefore, contrary to theory, the possession of financial or linguistic resources does not necessarily determine international success. The managers find inventive solutions to overcome a shortage of resources (subsidies, partnerships, etc.). The research sustained the theoretical approach to the necessity of the networking, in particular to the stakeholders’ perspective. Our cases confirm the importance of business networks, especially as a source of knowledge and information. Two types of networks are found: networks related to the business environment and the personal networks of the manager (their former contacts, colleagues or ex-employees living abroad, etc.). The French business network typically includes banking, legal (French and foreign law firms) and public institutions (chambers of commerce, French embassies), which plays a very important role in the internationalization process providing the professional and trustworthy assistance abroad. However, belonging to the network provides some obligations, particularly concerning human relations. Each

partner should be treated with respect (network opinion) and any cooperation should finish with mutual agreement, conflicts are to be avoided.

The competence approach and the theory of entrepreneurship seem to meet in terms of the importance of the role and competences of the leader. In these cases the export manager is a main driver to internationalization, their personal characteristics (dynamism, bravery) and competences play a key role in the future success of the internationalization process. The effectual decision-making process usually results in grabbing opportunities, which seems beneficial for the investigated companies. The managers of SMEs are more independent and can make decision quickly or adjust them if necessary, often the only barrier is a lack of financial or human resources. Moreover, the niche market is strategically determined in the sense that by definition the national market development potential is limited, so the only possible expansion is outside the national borders and it often is a matter of survival for the company.

Conclusions

The paper aimed to contribute to the internationalization process research by linking theoretical approaches concepts with the specifics of niche SMEs in France. Another objective was to consider the hybrid forms of internationalization used by three French niche SMEs.

It was revealed that there are some discrepancies between the presented theoretical approaches and these obtained in our research data. Niche firms have a very high share of international sales because they are forced to look for new targets to expand their narrow markets. Their internationalization process is not incremental, contrary to the postulates of the experiential learning theory.

Firms deliberately choose the least risky modes of entry (direct and indirect exports) and stop at this stage of internationalization. Their competitive advantage at the international level is constituted by innovative technology, the modern French design of their products, and the reputation of *made in France*.

The data obtained in the study indicates some elements of the internationalization process that are not referenced in the theories presented. The key discrepancy relates to the concept of key and strategic resources. The study found that SMEs can advance in the process of internationalization despite limited financial resources, by exploiting all their own resources, external resources (including state aid), or by adapting their strategies, including the mode of entry to international budgets granted. On the other hand, they often lose new markets because of insufficient human resources or a bad allocation of the existing resources. On the other hand, thanks to the development of ICT, they can simultaneously try to

establish contacts with customers in several distant countries, the geographical distance becoming a minor constraint.

The importance of business networks was emphasized by all the managers and it confirms the assumptions of the network approach. The theoretical literature highlights that the network of the business environment and the private manager's network have a big impact on the internationalization process. The concepts also show that belonging to a network facilitates the internationalization process. However, the research undertaken detects some differences in the understanding of the importance of networks in the development of firms and activities in international markets. In this case, causality goes in the opposite direction. First, a company that would like to belong to a network must be international. Second, the degree to which a company is informed about new technologies and competitive forces, depends on whether it operates in the international arena.

The new aspect that has emerged in our research is that the network can become a constraint because it can impose certain rules on the participants. The aspects that are excluded relate to the theoretical concepts and gathered data in the study towards the importance of the leader's skills. The previous research concerning fast-growing firms found that risk-taking is a high driver. In our case, the company tries to eliminate risk through extensive market research.

The biggest limitation of our work is the number of cases studied as well as the nature of selected firms. Therefore, extending the research from the point of view of other geographical markets, industries and the nature of SMEs would allow us to confront the data obtained in the study and deepen the state of understanding of internationalization processes, as well as enrich the theoretical approaches with new elements and relationships of the drivers present. Taking into account the research sample size and its exploratory nature, our research does not allow for generalization of results, but it does open several fields for future studies.

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Streszczenie

Proces internacjonalizacji niszowych MŚP we Francji

Badania naukowe dostarczają wielu wniosków na temat procesu internacjonalizacji firm. Jednak nadal istnieje luka badawcza w zrozumieniu procesu internacjonalizacji MŚP działających na niszowych rynkach, pomimo ich strategicznego zainteresowania we Francji. W artykule przedstawiono proces internacjonalizacji tych firm. Eksploracyjne badanie abdukcyjne zostało podjęte w celu zidentyfikowania odmienności w procesach internacjonalizacji małych i średnich firm w porównaniu do klasycznych form tego procesu. Uzyskane wyniki pokazują podejście hybrydowe w formach internacjonalizacji, które tradycyjne modele internacjonalizacji uwzględniają jedynie częściowo.

Słowa kluczowe: internacjonalizacja, MŚP działające na niszowych rynkach, przedsiębiorczość międzynarodowa, francuskie MŚP