

Examining the Factors Affecting the Performance of International New Ventures: A Case Study of the Surgical Instruments Industry

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Abstract

Growing attention has been paid to International New Ventures (INVs) which are small and medium-sized firms (SMEs) that internationalize shortly after establishment. There has been a considerable volume of research on International New Venture firms, but thus far there has been little research on factors influencing the performance of International New Ventures in the context of Asian economies such as Pakistan. To help to fill these gaps, this thesis examines the major economic and business characteristics of International New Ventures of surgical instruments industry of Sialkot. The findings show that government is not taking interest to promote internationalization activities, but focuses on support only for export promotion. It is also found that International new ventures of Sialkot surgical industry has limited number of network relationships with customers and suppliers but have relatively few connections with government agencies. This research also investigates the performance factors that boost the performance of INV firms as: international business experience of managers and the use of networks and the subsequent effect on the capacity of INV firms to perform well in international markets. The results provide evidence on the role of international business experience of managers and the business networks in foreign countries and the Government/Industry support to enhance the performance of INV firms in international market. The implications of the findings for theory, recommendations and future research are considered.

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INTRODUCTION

The Small and Medium size Enterprises (SMEs) sector is flourishing in developed countries with more than 90% contribution in the GDP. This sector has become the backbone of the economy of developed and developing countries. However, the role of SMEs in developing & developed nations has been increased (Wictor, 2012). In Pakistan, there is a great opportunity for SMEs sector to progress and contribute towards the GDP of the country. The real GDP growth of the country is 3.6% for the year 2013-13 which is low as compared to 4.4% of previous year 2011-2012. The SMEs sector has gone through dynamic changes over the past few years and the government of Pakistan is taking serious action to promote and strengthen the SMEs sector throughout the country. The serious steps towards the development of SMEs from government are evident with the recent national consultation conference held in Islamabad entitled “**Vision Pakistan 2025**”. The emphasis has been given to boost the economy through the entrepreneurial activities from the gross root level in Pakistan. Moreover, it has been discuss in the conference that export and private sector-led growth can be achieved through entrepreneurship in the country.

The Government of Pakistan constantly engaged in the formulation and implementation of policies to help small businesses in the economic development of the country. During the last decade, the Government of Pakistan has established various institutions like SMEDA to overcome challenges of SMEs and to assist new business ideas. There is need to explore the deprived sectors of the SMEs which requires proper attention for technological development which result in better performance in international markets.

Today, the knowledge based economy has increased the importance of entrepreneurship due to the innovation in technology and economic development. The central focus of the entrepreneurial process is to discover and develop the promising business opportunities around the world. The academic research scholars have admitted the prominent role of SMEs in international entrepreneurship and in global trade. They have also admired the promising role in the rapid transformation of knowledge and managerial skills in the international arena. The speed of internationalization of SMEs has become possible due to the intensive global competition and rapid technological advancement. The world is witnessed that new forms of small firms have been emerged due to the intensive global competition and rapid technological advancement. The unique form of small firms like “International new ventures (INVs)” also termed as “Born Global” are the new form of SMEs due to their orientation towards export in foreign countries within the inception of more or less 3 years (Oviatt and

McDougall, 1994). These forms are playing their vital role in strengthening the business economy of different countries. In Pakistan, these forms of firms are working in surgical instruments industry and sport industry of Sialkot. This concepts is known as “Entrepreneurship”, and it is prevailing in Pakistan over the past 3 decades. Jennifer et al., (2009) explain that “... *entrepreneurship in general is the phenomena to capitalize on identified opportunities or creation of new opportunities through innovation*”.

The traditional theories of SMEs internationalization suggest that firms should go global by following the step by step process after serving and learning from the domestic market (Johanson & Vahlne, 1977), but International new ventures (INVs) firstly acquires the international business experience and develop the foreign networks and then they start to internationalize (Kuivalainen, 2001).

The phenomenon of International new ventures is increasing in emerging country like Pakistan. These SMEs are found in large numbers in surgical instruments industry of Sialkot, Pakistan. These firms are unexplored in developing countries, particularly in Pakistan. The performance of these firms are stagnant over the past few years due to the lack of resources, international business experience of Managers/CEOs, Business networks in foreign countries and government/industry support. The entrepreneurs need to utilize internal and external resources efficiently in order to achieve high performance in the international markets. The high performance of these firms will result in sustainable industry growth and significant contribution towards the GDP of the country.

The economic growth rate of Pakistan is 2.9% during the last five years which is very low as compared to neighboring countries like, Bangladesh and India. The real GDP growth of the country has been estimated at 3.6% for the year 202-13 which is 0.8% less from the previous fiscal year 2012 Pakistan Economic Survey 2012-13, the manufacturing sector has 13.2% share in GDP whereas growth of the manufacturing sector is estimated at 3.5% in current year which is very poor with respect to country like Pakistan. According to economic survey of Pakistan, the growth rate of small scale manufacturing firms is estimated at 8.2% for the year 2012-13. Again this rate is very low as compared to other developing countries in the Asian region.

According to the Pakistan Economic Survey 2012-13, there are five leading export sectors of the Pakistan economy, these are: Sport, Surgical, Carpet, Textile and Leather. In the years 2010-11, the total export from Sialkot was US\$260 million. This has increased significantly

and reached the US\$300 million mark in the fiscal year of 2011-12 and US\$303 million in 2012-13 (SIMAP, 2013).

In manufacturing industry, this study focuses on surgical instruments industry of Sialkot, Pakistan. The surgical instruments industry of Sialkot is also called "Sialkot Surgical Cluster". Sialkot surgical cluster is recognized as one of the successful surgical instrument industries by exporting one fifth of the surgical instruments in the global market (Nadvi, 1999). Due to the increase in demand and globalization, the surgical instruments have become the major world's export goods in many countries. The INV firms in this industry are not performing well in the international market. The performance of these INV firms in international market does matter because of their orientation towards export is evident as more than 90% of their sales derived from export in foreign countries. There are certain factors which can enhance the performance of these INV firms in surgical instruments industry of Sialkot, these factors are discussed in this study to address the performance of INV firms in surgical industry.

Business networks are very important for INV firms to grow and increase export volumes in foreign countries. Oviatt and McDougall (1994), Bell (1995) and Coviello and Munro (1997) suggest that you have to study the networks of the company to understand the performance of small firms like International new ventures. The business networks are playing vital role in term of knowledge spill over (Transfer of knowledge). The business relationships provide support to INV firms in; Product development for foreign markets, Developing foreign market intelligence and R&D for foreign market development. This result in growth of INV firms in international market. In addition to the international business experience of managers/CEO and business networks in foreign countries, there should be government and industry support to the INV firms. Particularly in Pakistani SMEs context, government should provide financial support and advisory to the INV firms to grow.

The surgical industry of Pakistan is not playing its vital role as to where it require to insert its sincere effort in establishing the skill building institutes, building industry-university research linkages in order to strengthen in INV firms in surgical sector. Since INV firms are important sector of the economy, factors that influence the performance of INV firms must be established to contribute significantly in the economy of Pakistan. According to Surgical Instruments Manufacturers Association of Pakistan, in the years 2010-11, the total export

from Sialkot was US\$260 million. This has increased significantly and reached the US\$300 million mark in the fiscal year of 2011-12 and US\$303 million in 2012-13 (SIMAP, 2013).

This study is intended to investigate the research gap of factors influence the performance of INV firms in surgical instruments industry of Sialkot, Pakistan. The establishment of these performance factors will result in tentative solution and strategies for the entrepreneurs in surgical industry to adopt in order to increase the performance of these firms in the international market and the level of employment and economic prosperity in the country.

LITERATURE REVIEW

Theory of International New Ventures (INVs)

The phenomenon of International new venture is being widely discussed among the researchers of international business, international entrepreneurship and international marketing. One of the successful papers of Oviatt and McDougall (1994) on international new venture, titled as " Toward a Theory of International New Ventures" has attracted the significant attention of researchers around the world. According to Oviatt and McDougall (1994), International new ventures (INVs) are *“business organizations that from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”* (p. 46).

Various terms and definitions During the period of 1990s when INVs started their emergence in international market, many researchers have tried to describe the emergence and existence of this newly developed phenomenon (Luostarinen & Gabrielsson, 2006, McDougall, et al., 1994; Rialp, et al., 2005). Since then, various terms have been invented to explain the similar phenomenon. The most used term is *International New Venture (INV)*, which is invent by Oviatt & McDougall (1994), and they defined INVs as firms that *“from inception, seek to derive significant competitive advantage from the use of the resources and the sale of outputs to multiple countries”* .

This definition has been further adjusted to fit into the context of many companies in Sialkot surgical instruments industry. For these companies, it is important that sales to multiple countries are included in the definition so that investigation is meaningful in its own environment. This builds on the fact that the International new ventures (INVs) are operating in multiple countries. In other words, the entrepreneur starts with a vision that the company

should widen its domain abroad because he sees a potential market there. Or it could be that he is forced to act likewise since the product is a niche product and the domestic market is too small or export opportunities are significant.

Surgical Instruments History - World Overview

According to the report of Transparency Market research, the global surgical instruments market was worth of 5.2 USD billions in year 2011 and expecting to have fasted revenue growth at 7.5% during 2011 -2017. Businesses dealing in surgical instruments have a globally recognized importance. Renowned markets in the world for this niche include, US, Europe and Japan. As for the history of this phenomenon, it goes all the way back to a place called Tuttlingen, which is located in Germany and is famed for its functional surgical tools (Nadvi & Halder, 2002). The past life of these surgical instruments is ancient indeed and has roots in the 17th century. Evidently that was when these surgical instruments were used for the first time.

Currently, the United States of America is at the top with regard to this particular type of business. It is the leading manufacturer because of its advanced state of technology. A record number of medical paraphernalia and surgical goods are churned out in the land of opportunity (Themedica, 2009). In the capacity of an industry, it happens to be very competitive and price-susceptible. This is because the demand for high technology remains at an all-time high. The closure devices cover 41% of the net world market share (Faisal, 2010). Most of the multinational corporations and manufacturers which are busy in this sector of the economy comprise small medium-sized enterprises. All of them are located in North America not to mention Western Europe (Germany) and Sialkot (Pakistan).

In the early stages of the 20th century there were some clusters such as “Sheffield” which is located in the UK; “Nogent-Sur-Marne” in France as well as two in “Solingen & Tuttlingen” (Germany). All the others except for Tuttlingen have been destroyed. In recent years, Malaysia, Poland, Hungary, China, Korea and India have also extended their services for the surgical industry sector (Surgical Instruments Manufacturing Association of Pakistan - SIMAP 2013).

Surgical instruments industry of Sialkot Pakistan

The Sialkot surgical cluster started regional production in 1890, so it has deep indigenous roots. The inception of business began between the ironsmiths of Sialkot and British doctors who obtained valuable services from this industry by having certain instruments repaired. When the “Memorial Christian Hospital” was founded it gave a leading edge to this industry in Pakistan (which was then a part of the Indian Subcontinent). The British doctors were quite impressed by the manufacturing capabilities and the high-quality durable products. In the beginning, they ordered scalpels and were quite satisfied with the results. So, finally, the Sialkot surgical industry got an order of spatulas and different kinds of knives which were used in surgical operations.

With the passage of time, the Sialkot surgical industry achieved a lot of popularity and the hospitals located in British India started buying surgical and dental instruments from this location. By 1920, the industry was well-established and by 1930, Sialkot became a successful regional exporter. Gradually, Pakistan initiated the exports to overseas regions. Mainly the instruments went to England, Egypt and Afghanistan. During WWII, the British ordered the Sialkot industry to manufacture surgical instruments which were particularly used by the Allied Forces. The Metal Industries Development Center (MIDC) was laid down for the inspection of these instruments. Additionally, quality monitoring began its operations via this center.

The industry started its expansion of exports on a large scale. Upgrading of MIDC was accomplished twice, once in 1947 and later on during the 1980s. Production of better results by a combination of new technologies such as drop forging hammers and vacuum heat treatments helped immensely in the streamlining of instruments. By the 1990s, there were a few joint ventures with European and American firms. AMERI TRADE is an example. The conglomerate’s office was set up in the city of Sialkot to monitor quality control before the final export of surgical instruments to key markets in North America and Western Europe. At present, Pakistan has made an image for itself by exporting quality instruments, among which surgical and dental odds and ends of equipment form the largest chunk. In the years 2010-11, the total export from Sialkot was US\$260 million. This has increased significantly and reached the US\$300 million mark in the fiscal year of 2011-12 and US\$303 million in 2012-13 (SIMAP, 2013).

Growth of International New Ventures (INVs)

Although resources are assumed to play a critical part in the growth of Born Globals, they suffer from resource limitations (Oviatt & McDougall, 1994), quantity of resources (Hannan, 1998) and fungible resources (Sapienza, et al., 2006). Managerial experience in terms of stock, stream, and variety (Reuber & Fischer, 1999) are also considered important components of growth. However, resources as such do not make for much growth if firms do not possess the necessary capabilities for deploying and coordinating the various resources (Verona, 1999). Based on previous studies, long-term growth may only be achieved if these capabilities are of a substantive and dynamic nature (Zahra, et al., 2006). The Comparison of Growth of Traditional SMEs and INVs is shown in figure 2.2.

In addition, entrepreneurial orientation should be at a peak point (Knight & Cavusgil, 2005) and the founders and management team members should be highly experienced so that the firm does not suffer from lateral rigidity (Luostarinen, 1979). For the fact is that this may limit firms from exploring new opportunities and methods. Instead they would then go with the known alternatives. Finally, high industrial growth rates and levels of globalizing enablers are expected to provide growth opportunities (Oviatt & McDougall, 1994). These industries and firms are assumed to be critical drivers in reaching commercial breakthrough (phase 2) and global breakthrough (phase 3). These factors may also start global rationalization (phase 4) but in a reverse manner. In other words, when industry growth slows down, the need for firms to rationalize their activities globally is enhanced, driving the need for resource alignment (Douglas & Craig, 1989). Greater concentration of sellers (Driffield & Munday, 1997) also increases the need to rationalize.

Conclusion

This study emphasizes the central role International business experience in leading to improvements in the international business performance of International new ventures. The findings confirm that business network is a significant driving force of international business performance in areas such as satisfaction with foreign market growth, share of sales from international activities, and the number of foreign markets supplied. In addition, it is found

that government & Industry support has a direct effect on the performance of International new venture.

Although some of the literature assumes strong linkages between individuals with international work experience, international networks and business performance of International new ventures, the present study provides empirical evidence of the relation of international business experience, business networks and government & industry support in achieving superior international performance. Consistent with Knight and Kim (2008), the findings suggest that international business performance and the survival of the firm appear to be the turning point on the extent of the foreign performance capacity.

The findings indicate that the international business experience of managers is a key predecessor, influencing both foreign performance capacity and the value of networks. It is most likely that managers with international business experience in a variety of domains such as R&D, client and customer management and international sales have their own personal networks in particular business domains.

The managers & Entrepreneurs in International new ventures are therefore advised to seek to take full advantage of a strategic use of their international business experience so that the firms can make valuable contacts for international activities and enhance their capacity to achieve superior foreign performance (Bell et al., 2003). Of particular importance to International New Venture firms is the use of networks for foreign activities as they have the potential to determine foreign performance capacity and thereby international performance outcomes.

COMPETING INTERESTS

The authors have no competing interests to declare.

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