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Understand New Zealand's Apparel SMEs' Internationalisation through a Manufacturing Strategy Approach

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Abstract

Using a holistic view of small- and medium-sized manufacturing firms' internationalisation, this study explores New Zealand apparel exporters' internationalisation behaviour through a manufacturing strategy approach. It draws on the global value chain concept to provide linkages between internationalisation and manufacturing strategy. Through in-depth interviews, the study shows that those firms' internationalisation patterns are to a large extent determined by their concerns on manufacturing strategy, more specifically the four manufacturing priorities, i.e. cost, quality, delivery, and flexibility. A conceptual framework is developed. The study also offers insights into subcontracting in connection with the global value chain literature.

The findings enrich the extant SME internationalisation literature that often tends to focus on sales, and incremental developments. By demonstrating how manufacturing strategy plays a decisive role in the firms' operational mode of internationalisation, the study lends support to the argument identified in the literature that, SMEs' internationalisation needs to fit into their overall set of activities, and is inseparable from their general development process and growth, particularly at the early stage.

Key words: internationalisation, manufacturing strategy, apparel, outsourcing

INTRODUCTION

The small- and medium-sized enterprise (SME) internationalisation literature remains inconclusive because firms' activities are to a great extent heterogeneous and complex. Incorporating global value chain concept, this study explores six New Zealand apparel exporters from a manufacturing strategy perspective. It suggests a novel view to understand manufacturing SMEs' internationalisation.

The New Zealand economy, one of the least regulated economies in the world (Chetty, 1999), has specific research significance because of its historical background. Since 1984, the nation's labour government began to restructure its highly centralised economy and remove high tariff protection from imports. Consequently its manufacturing industry containing a high percentage of SMEs went through a dramatic decline over the last two decades, particularly noticeable in the apparel sector. The firms in this study are regarded as competitive in terms of their capability and strategy. Despite their relatively early stage in internationalisation compared to counterparts in other OECD countries they are generally oriented to the international marketplace (www.stats.govt.nz).

The study looks at apparel manufacturing industry because of its largely globalised value chain, driven by comparative advantages that are now predominantly possessed by developing countries (Gereffi, 1999). In this context, a firm's international strategy is designed to rationalise the interplay between the comparative advantages of countries and the competitive advantages of firms (Kogut, 1985).

LITERATURE REVIEW

This section discusses the relevant literature on SME internationalisation, manufacturing strategy and priorities, and the global value chain concept. Characteristics of the apparel industry are noted.

SME Internationalisation

Smaller businesses 'behave differently in their analysis of, and interaction with, their environment' (Shuman and Seeger. 1986, p.8) as they often encounter internal constraints during the international growth, such as limited experience, knowledge, capital, and management (Buckley, 1989). Internationalisation of SMEs has been attracting recent attention from researchers, after a period of being largely ignored in the literature (Etemad, 2004). We understand a firm's internationalisation as an increasing process of international involvement (Welch and Luostarinen, 1988). Although firm size may not necessarily impede firm's internationalisation significantly (Calof, 1993), SMEs' internationalisation is widely acknowledged as different compared to MNEs (Li et al., 2004).

Regarding the approaches to addressing SMEs' internationalisation, Coviello and McAuley (1999) conclude three streams in the literature: FDI, stage model, and network perspective. Their review of existing empirical studies however identifies the difficulty to capture SME internationalisation by using only one theoretical framework. Likewise, Andersson et al. (2004) challenge the stage model that they believe does not explain the motives of SMEs' internationalisation. Bell et al. (2004) argue the network theory fails to offer a complete picture of SMEs' internationalisation.

A high level heterogeneity of SMEs internationalisation is often seen in researches (e.g. Jones, 1999). It is mainly because a SME's internationalisation process largely depends on its contextual factors (Turnbull, 1987; cited in Li et al., 2004). To meet this challenge, a more holistic understanding of internationalisation emerges, and correspondingly an integrative manner in researching SME internationalisation by making use of the extant literature for further knowledge development in this area is highly recommended (Coviello and McAuley, 1999). For instance, Li et al. (2004) propose a hybrid theoretical model incorporating a contingency perspective and the traditional stages theory to understand SMEs' internationalisation, as they believe each theory alone may be limited. Aspelund and Moen (2005) highlight firms' motivation and competitive profile relating to internationalisation patterns, and note the appropriateness of incorporating its strategic assets, strategic intent and the environment while analysing SMEs' internationalisation. Particularly, Jones (1999) argues that 'internationalisation is part of and inseparable from the overall growth and development process of small firms, at least at the early stages' (p.15). She further claims that internationalisation as a strategy for development in itself is questionable.

Manufacturing Strategy

Originally defined by Skinner (1969) as the strategies "exploiting certain properties of the manufacturing functions as a competitive weapon" (Dangayach and Deshmukh, 2001; p.886), manufacturing strategy theory has become an important topic in the strategy literature since the mid 1970s (Swink and Way, 1995). Manufacturing strategy is a collective pattern of decision making that acts on the formulation and deployment of manufacturing resources (Cox and Blackstone, 1998), and determines strategic capabilities of a firm (Hayes and Wheelwright, 1985). Developing a superior manufacturing strategy is critical for a firm to cope with a changing business environment, as it may help the firm gain competitive advantage or stay at an already prominent position (Lin et al., 2002).

The theory itself is also suggested to accommodate the international context (e.g. Riddle and Parker, 1990). But specific to internationalisation only a few studies are found relevant (e.g. Chen, 1999; Shi, 2003). Mainly, it is because as an operational management theory manufacturing strategy literature has assumed that firms operate in a single-market world (Dubois et al., 1993), while it does not generally deal with the issues of international business too much (Meijboom and Vos, 1997).

Manufacturing Priorities

A major research stream in the manufacturing strategy literature concerns manufacturing priorities. Manufacturing priorities are a consistent set of goals for manufacturing (Leong et al., 1990), and serve as guidance for manufacturing strategic decisions (Chen, 1999). Thus, the management must be aware of on which priorities the firm should outperform its competitors in the market, and further deploy coordinating or subordinating strategies to achieve it.

Skinner (1969) initially defined four manufacturing objectives, or 'priorities' – cost, quality, delivery, and flexibility - which have subsequently been widely discussed in the manufacturing strategy literature (e.g. Skinner, 1974; Wheelwright, 1984; Gerwin, 1987; Schroeder et al., 1989; Spring and Boaden, 1997). Lin et al. (2002) highlights these four classic priorities specifically in the apparel industry, and offer basic definitions. Cost is defined as price efficiency or the production price of a product; quality is defined as a conformance of product performance to customer preferences in the decision to adopt particular products; delivery involves speed and service to the customer; and flexibility refers to the variety and quantity of products available to meet customer requirements. In an earlier study of the apparel industry, the manufacturing priorities have been shown to be interrelated (Yu and Lindsay, 2005).

Apparel manufacturers face performance challenges across all four manufacturing priorities. In developed countries, apparel manufacturers tend to be highly labour intensive, and are becoming increasingly less competitive in terms of cost of production (Buxey, 2005). Improved product and process quality is a strategic priority for firms competing in globally competitive markets (Tan et al, 2000). In New Zealand during the late 1980s and 1990s, manufacturing export firms focused increasingly on quality, using high quality designs and products to compete in international markets (Lindsay, 1990; Everett, 1996). Further, delivery and flexibility nowadays are vital in the achievement of competitive advantage in the industry (Lin et al., 2002).

In sum, manufacturing strategy theory is appropriate to understand manufacturing firms where value is created through a collection of productive activities (Stock et al., 1999). The internationalisation literature argues SMEs need to combine interrelated and integrated decisions and processes to accomplish their individual patterns of internationalisation (Jones, 1999). We expect the integration approach of these two strategy theories may offer findings regarding the nature of manufacturing SMEs' internationalisation from a holistic perspective.

The Global Value Chain

A firm's overall value chain is a chain of sequentially interlinked activities that gradually transform raw materials into finished product valued by the buyers (Stabell and Fjeldstad, 1998). A value chain is best designed in terms of the contribution of each link to market value or cost (Kogut, 1985), the latter applying particularly to the apparel industry.

In this study the global value chain concept may help us understand issues associated with manufacturing strategy and internationalisation, because today's apparel industry worldwide is characterised by global sourcing or production, in other words its increasing fragmentation along the global commodity chain (Gereffi, 1999), or global value chain (Kogut, 1984). Major reasons for this phenomenon are improvements in cost reduction, quality and availability (Cho and Kang, 2001), through reconfiguration of a firm's value chain activities. According to Gereffi (1999), "the apparel industry is a prototypical buyer-driven commodity chain because it generates a highly aggressive pattern of global sourcing through a variety of organizational channels." (p.40). Over the last decade, buyer-driven Asian manufacturers have moved from basic assembly to more involved OEM, or full-package production, generally incorporating more upstream activities, with China being a major player.

A key issue, therefore, in regard to global value or commodity chain decisions is in-house production versus outsourcing. However, in the literature a knowledge gap exists regarding international behaviour and internationalisation decisions of SME manufacturers that are involved in subcontracting (Saee and Mouzychenko, 2003).

RESEARCH METHODOLOGY

A qualitative research approach was chosen because the research required in-depth understanding of how and why apparel companies utilise their manufacturing priorities to compete internationally. The use of interview-based case studies allowed for the exploration and analysis of individual companies, each contributing to the understanding of the phenomena being studied (Yin, 1994). This approach is able to provide greater insights into firm-level strategies, understanding problems these firms have and how they deal with them in practice (Gay and Airasian, 2000; Gall et al, 1999).

Sample

Companies were selected from the following sources: two websites, www.yellowpage.co.nz and www.ubd.co.nz; the computer database, Newstext, and the 'New Zealand Business Who's Who' (2004 ed). Six apparel manufacturing companies were selected, based on their fit with the requirements of the study. Specifically, they were small and medium sized companies (with more than 10 employees), were located in the middle and south of New Zealand, and were active exporters. All, except for one company, were privately owned. An extensive trading history was evident in all cases, except for one, which arose from a merger between companies, each with similarly long trading histories. In order to ensure anonymity, companies are referred to as A-F in the study. Appendix 1 shows the characteristics of these companies, including product ranges, international markets and raw material sourcing locations, etc.

Interviews
Key themes relating to the research topic were derived from the literature review and industry information gained from secondary material, and these were used to formulate the questionnaire – they included themes relating to the four manufacturing priorities. The interview included both semi-structured and open-ended questions, the latter providing additional information on the companies' development, broader manufacturing strategies, and challenges for the future. These approaches are regarded as helpful in discovering new insights (Robson, 1993). Interviews were conducted with the managing director, who, in all but two cases, was an owner-manager in the company. In-depth interviews lasting 1.5 – 2 hours were guided by the questionnaire themes. In most cases, a factory visit followed the interview. Two researchers were present in four of the six interviews, enabling additional insights to be captured. Data were collected by tape recordings and note-taking during the interviews.

Data Analysis
The interview notes were written up, assisted by the researchers listening to the tape recordings. Analysis involved manual coding of the data, according to the approach of Miles and Huberman (1994). Specifically, patterns and themes were identified from the data within and the between cases. These patterns and themes were assessed in the context of the key themes in the literature. Data was mainly collected following the four manufacturing priorities. Additional themes deriving from the data analysis provided contextual information about the companies, which assisted in the interpretation of the results on manufacturing priorities and internationalisation strategies.

RESULTS
This section aims to illustrate the activities of the apparel manufacturing exporters in the study in relation to their international marketplace. It outlines the key findings in relation to the four manufacturing priorities (cost, quality, delivery and flexibility) and their intersection with internationalisation decisions. Links with value chain activities of the firms are also noted.

Cost
All the companies agreed that cost is a major concern, and low costs a necessary condition for staying in business.
'Cost is very important because it makes us competitive or not.' (Company B)
'We keep the cost as low as we can, and work economically.' (Company D)

Strategies to reduce costs include internal controls, such as reduction in overhead costs, and improving labour productivity. Notwithstanding these approaches, high labour cost is a critical challenge perceived by most managers.
'The New Zealand wage is ten times that of China'. (Company B)

In order to deal with high production costs, four companies in this study undertook outsourcing of production to offshore locations, predominantly China.
'If you go offshore, there is around 25% saving on cost; we are sort of being forced to make products offshore, mainly because of the price, and cost is one of the main reasons we go offshore.' (Company D)

According to the research, the overall cost saving resulting from offshore production ranged from 25% to 50%, depending on the product. Through using Chinese-made product in the product portfolio, and concentrating on providing high quality, low volume products in New Zealand, Company B enjoys a price competitive advantage in both low end and higher end markets.
'We bring some from China and then spread the whole thing out. Rather than drop the line that actually is making little money, we can just make more on another line. For China imports, the price is only half, and this is one way we make a good margin.' (Company B)

Amongst the four companies largely outsourcing in China, one company (F) indicated the possibility of moving beyond subcontracting towards establishing a joint-venture factory in China within the next few years. Those companies seem satisfied with their current situation on production subcontracting.

Although overall costs were perceived to be the most important of the manufacturing priorities by all the companies in the study, none of them utilise low cost as a competitive strategy, recognising that they are unable to compete with products from low-cost labour countries in their domestic and international markets.

'Cost leadership strategy is not appropriate for us. I would say we focus more on value, and it's about good design and performance - for example, relatively low price and good service. And overall we offer product with both a fashion element and high quality German fabric, and service.' (Company D)

Quality

Except for merino wool products, raw materials and fabrics for garments are mainly sourced either directly or indirectly from overseas, for example, Germany, Italy, North America, Japan, China, Taiwan, and South Africa, and very little originates from the domestic market. This is because the New Zealand textile industry is now very limited, and companies generally seek high quality fabric obtainable only from overseas.

'We don't source from NZ because there isn't a textile industry…most of our raw materials come from the US, Europe, and Japan'. [1]
(Company E)

All companies believe they are producing quality products with good design and carefully selected fabrics. They view quality as their strength in the market, and none of them would sacrifice quality for lower cost.
'Cost is high, but we also need to maintain our quality at a high standard, because we offer value for customers.' (Company A)
'It's always challenging, but we will not sacrifice quality for lower cost. We have to make quality a priority. For example, once the cost goes up too high, if there is no other alternative way for making it cheaper and maintaining the quality level, we will drop the style rather than make compromise on quality.' (Company E)

According to the managers another key determinant of product quality is machinery, which is sourced from Germany, Japan, Italy and the USA.
'The quality is based upon more fabric selection, and we select machinery basically as good as we can.' (Company E)

Quality performance and control in relation to their China's subcontractors was seen as challenging.
'It is hard to control, all we can do is we control the pattern, grade fabrics, and use production samples, but it is risky as things may go wrong.' (Company D)

In subcontracting, quality control is managed throughout the manufacturing process, including fabric purchase, production, and distribution. Typically, a company orders fabric from suppliers in other countries and arranges shipment direct to its subcontractor factory, Then, it ensures that production strictly follows the design, pattern or specification provided by the company, by undertaking sample checks at the early stages of production, or periodically sending a representative staff member to oversee the process.
'Generally, we don't actually get involved in processing the materials; we get the manufacturer to do it. We just give them the specification, and once we approve the sample, they start to manufacture. We buy the whole garment, we stipulate the quality of raw material where they should buy from, what colour they should buy, and at what price…' (Company E)

Companies varied in terms of the intensity and method of quality control. One company devoted much effort to its Chinese subcontractor in order to achieve high quality performance.
'For overseas manufacturing, we send people there every week, or 2 weeks. We also trained the people there in order to ensure the quality of their products.' (Company F)

Overall, most companies acknowledged that the quality standards achieved by their international subcontractors are high. Particularly over the recent years, it has improved significantly.
'The Chinese make excellent products. The manufacturers there have huge fabulous modern factories, and their machinery is much better than ours.' (Company B)
'I've been in this industry for more than 25 years, and there is a significant change in products from China.' (Company E)

For quality control reasons, finished China-made products are normally shipped back to New Zealand before delivery to domestic and international customers.
'The product has to be shipped back to NZ for further touching-up, like ironing, packing and some inspection, before they go to the customer in Australia and NZ.' (Company F)

Delivery

[1] Footnote: All quotations were transcribed from tapes and were edited by the researcher.

Achieving high performance in delivery is a significant challenge for the companies, and most managers believe that customers are becoming more demanding on their delivery performance requirements, particularly in the international sales market. Naturally, companies are increasingly driven to compete on this priority.
'People are expecting more, and they have very high expectations.' (Company B)
'We do everything we can to reach the due date, and we'll pull out all our resources to achieve this.' (Company E)

Generally, however, managers see little scope for improvement on their current delivery performance, mainly as a result of their geographically spread value chain. There are long lead times for fabric supply (up to 6 weeks delivery from European suppliers), and delivery of finished product from their offshore manufacturers, resulting in a turnaround time of up to 5 months from the point of order to delivery of finished product to customers.
'It's the best we can do here because we have to order the design in, have the fabric woven, and send to manufacturer' (Company B)

It was felt that this situation may improve to some extent as a result of worldwide restructuring of the apparel industry.
'One of our suppliers has started moving into China, so we may get fabric from them in China straightaway.' (Company E)

For most manufacturers, overall delivery performance of the domestic factory and the internationally subcontracted products in the domestic market is satisfactory. Because of their competitive advantage on delivery in the New Zealand market, managers were not concerned about overseas competitors.
'They (the overseas manufacturers) don't have the distribution shop we have. We have had working relationships with retailers for 25 years, and we also have agents in NZ.' (Company C)

Nonetheless, this may not be the same case in their international sales market, for example Australia.
'We do have some disadvantage due to the location. For example the competitor in Australia certainly can deliver faster than us.' (Company F)

A company sacrificed profit in order to meet the customer's expectation on delivery, as well as flexibility.
'The way for us to operate in the Australian market is quite expensive right now, because we ship from here to Australia and we actually haven't reached the minimum shipping quantity we adhere to. We don't penalise the customer for a small order at this moment. Our product margin is quite low in Australian, but we need to do that to achieve our sales target there first.' (Company E)

Thus, extending the distribution system into the target market is part of this company's short-medium term-strategy.
'We are going to use a contract warehouse in Australia, because the way we deliver the product to that market right now is not economical. We have to deliver very frequently for a lot of small orders, so the cost is too high.' (Company E)

Flexibility
Nearly all the managers are keen to offer superior designs and meet specific design requirements of customers, where possible, and most believe that this provides a competitive advantage.
'We focus on value. It is about good design and good performance.' (Company D)
'We always have new designs and new products come out as innovation is one of our advantages.' (Company F)

Design is generally done in-house, often with ideas generated from major markets, particularly Europe. In one case, the design element is focused on colour innovation to existing designs obtained from a European design house.
'Our designers go to Europe quite often to collect new design and new styles.' (Company F)
'We have the best designs in the market. The Germans bring us thousands of designs, and we just look through and discuss the one we like the most, and afterwards we colour them ourselves. We also send our idea to the German designers. They make it into a sample and give back to us, and we approve or change it. That takes about 4 weeks, which is very efficient.' (Company B)

With regard to volume flexibility, the companies utilise domestic manufacturing for small customised orders, which are of higher value and have high quality requirements.
'We make 'made-to-measure' products, for example only 1 unit. This business accounts for 8% of our overall turnover. Of course the price will be much higher because we put more effort in it, and the quality will be much

better than the average. We do them here because for small volume order you cannot easily make offshore, and also we can deliver fast to local and Australia market by doing so.' (Company F)

Firms however admitted it difficult to achieve the same volume flexibility in their international sales market due to the geographical distance. As indicated earlier in delivery, company E was struggling to afford the frequent delivery of small quantities to Australia. Thus, the distribution channel extension also plays a critical role in enhancing firms' flexibility in international sales competition.

DISCUSSION

The findings reveal the interrelations between manufacturing strategy and internationalisation strategy, specifically the important but different roles of the four manufacturing priorities in the firms' internationalisation activities. Moreover, the firms' internationalisation is concerned as much with sourcing and production as it is with sales, which appears to follow the pattern of the global industry – an increasingly fragmented global value or commodity chain (Gereffi, 1999; Gereffi et al., 2005). It also concurs with Jones's suggestion (1999) that SME international expansion involves a range of links across all aspects of the value chain.

Following a simplified apparel manufacturing value chain, i.e. *material supply-design-production-distribution-sales*, the below discussion starts with highlighting firms' decision on the internationalisation of the centre value chain component – production, then explores how the internationalisation activities of the rest value chain are affected by the concerns of manufacturing strategy.

Production Internationalisation

Cost appears to be the most important manufacturing priority that drives New Zealand apparel firms to relocate production to China, which is consistent with other findings in the apparel industry (Cho and Kang, 2001; Buxey, 2005), and in manufacturing in New Zealand (Akoorie and Enderwick, 1992).

Noticeably, one exception that did not become involved in overseas production was the company specialised in high upper level hunting and fishing clothing which normally ranges in price between NZD600 and more than NZD1, 000. This company showed no strong interest in made-in-China despite its acknowledgement of potential benefit from doing so. Another large firm has relocated its majority production to China, however it keeps two high value product lines at home. The manager of this firm believed those products would not benefit from subcontracting as much as other already-relocated products due to the low percentage of labour cost contributing to the overall value. Based on similar findings from Australian apparel industry, Buxey (2005) points out that international outsourcing of production is often used for lower value apparel products, with higher value products being made in the home market. Our research findings support his argument in the New Zealand context in that firms' strategy on production internationalisation, i.e. subcontracting, is significantly determined by product characteristics.

The cost-driven internationalisation production however brings firms a number of challenges that are also associated with other manufacturing priorities. The research found that companies may retain certain production at home in order to offer small volume and fast delivery, which illustrates the impact of flexibility and delivery on management's decision on subcontracting. Likewise, in order to secure quality performance regarding design and pattern, firms may also decide not to outsource in China. For example, the two companies offering make-to-measure products for the local market believed the domestic factory was the only place where they can 'tailor' to meet customer needs, as those garments were highly customised, e.g. more sophisticated cutting, different pocket position on a suit, specially required embroidery, etc.

In relation to subcontracting specifically, it appears that control over international production appears to be a key concern of many firms. The extent to which a firm may control or influence its subcontractor affects quality, delivery and flexibility. This is because firms are able to monitor product manufactured quality strictly at home because of the strong emphasis on, and possession of, advanced equipment, but once production is at arm's-length production quality becomes difficult to monitor and control. As a solution, frequent supervision is often necessary, which leads to an increase in the firms' international involvement. Similarly, firms must be able to handle market variations for manufacturing flexibility, such as customers' demands for changes once the order has been taken. These kinds of challenges become problematic when manufacturing is subcontracted, and is in a different international marketplace. In addition, the relatively small volume of production for New Zealand firms means that they must compete against other larger international firms for priority.

Firms have tended to respond to this situation in two ways. Some of them appear to pay a lot of attention to their subcontractors and have a relatively high involvement in the subcontracting process, while others give their subcontractors a lot more authority. The latter aligns more with the global trend towards 'full-package production' OEM model. An interesting finding here is that the former type of firm often aims to become a 'privileged' client by choosing to cooperate with smaller sized subcontractor. The latter type of firm by contrast behaves more like the large sized players from Europe or the US. They subcontract to big factories in China and hope to build their reputation by having their products made on a same production line as world-famous labels. Future research may study performance-related issues to assess the effects of these two different subcontracting modes.

Overall, firms' objectives relating to manufacturing cost appear to be a trigger to them seeking production internationalisation through subcontracting. This, in turn presents challenges on other priorities.

In addition, firms react in a number of ways to deal with the subcontracting issues, a feature noted by others (e.g. Chetty, 1999). For example, they are developing trusting relationships with subcontractors in China by helping them with training on production techniques. This illustrates how firms' concerns about their overall manufacturing strategy determine their willingness to become involved in international production. Moreover, the example of one of the firms in the study planning to establish a joint-venture factory in China may further illustrate its evolving process from simple subcontracting to an FDI stage.

Other Value Chain Internationalisation Activities

Apart from locally sourced merino wool, firms internationalise their upstream value chain, i.e. material-sourcing, because of the high expectation for quality.

Relevant to quality and flexibility performance, design is a key value-adding component to a garment product. All the firms in the study seek for knowledge internationally to remain up-to-date with leading fashion trends. Nonetheless, except for one firm acquiring original designs from a German company, they generally prefer to use in-house design. This echoes what the literature suggests, that companies will control, and thus retain at home, the value chain activities that are strategically important to their long-term success (Kogut, 1984). It also partly reveals how firms deliberately internationalise their value chain according to the particular desired competence of manufacturing priority.

Firms' concerns about manufacturing strategy affect the internationalisation pattern of downstream value chain. To ensure quality, all the researched firms ship Chinese-made products back to New Zealand for 'finishing touches' before delivering to the market. This operation does not necessarily hamper firms' competitive advantage where the inspection and packing take place where customers are located, for example the domestic market. But it can and does lead to poor delivery performance for firms exporting finished product to international markets, due to increased delivery time and costs of distribution. As a solution, firms may need to consider extending their value chain, e.g. establishing a warehouse, in the international sales market. This illustrates how firms' manufacturing objectives affect their internationalisation decision.

Firms' manufacturing strategic orientation influences their overall internationalisation pattern. For example in this study, in a no cases were sales targeted at the market where international production took place – that is, China. It could be explained that firms only treat China as a source of low cost rather than sales revenue. Similar phenomenon is also noted by Buxey (2001) in his study of Australian apparel SMEs.

Summary

Firms' desired performance on manufacturing priorities affects their global value chain configuration which determines their internationalisation pattern (*Figure 1*). The results cast a different light on conventional perspectives of internationalisation strategies and decisions. Rather than depicting internationalisation as an incremental process of increasing international sales, the study suggests that internationalisation is driven more by the strategic necessities of achieving competitive manufacturing performance.

It is worth noting that due to the interrelation of manufacturing priorities, activities supporting one priority may, however, hold back another. Therefore in reality firms often have to deploy a series of strategies, rather than one. This may help to account for the difficulties and complexity noted in manufacturing SMEs' internationalisation. Figure 1 illustrates how these strategies may be viewed as a series of strategies.

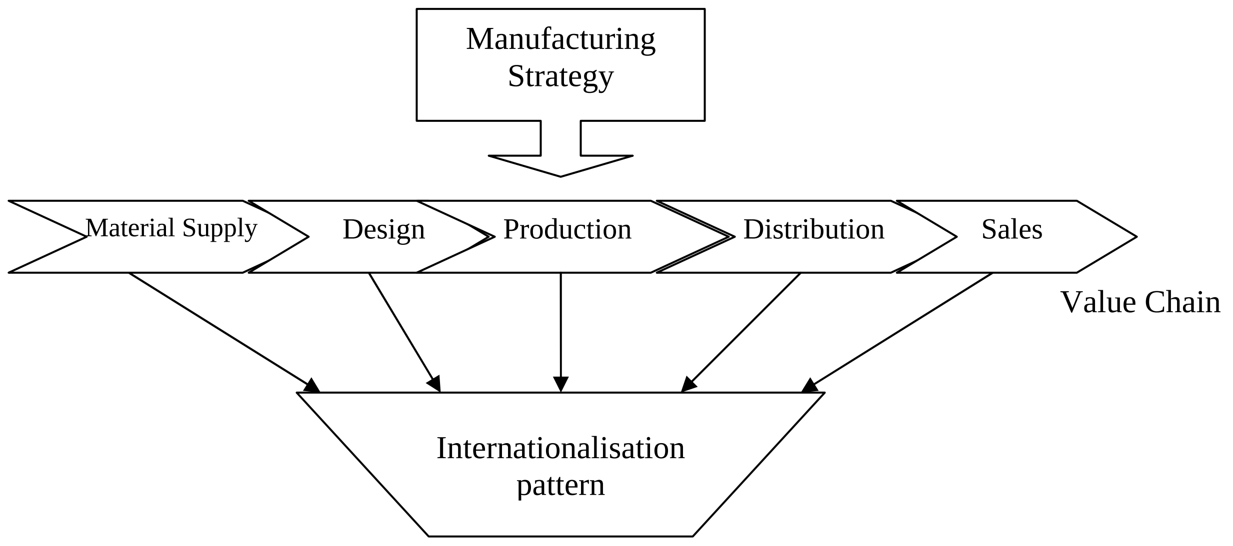

Figure 1

Figure 1 is a tentative conceptual model deprived from the results of this study. Future research will be undertaken to explore this further.

LIMITATIONS

This exploratory study contains several limitations. First, the fact that it is a single industry and small-sized sample affects the research generability. It may be better to be considered as a pilot study, prior to studying a wider sample of cross-industry firms. Second, the findings may only reveal the early stage of the firms' internationalisation due to the sample characteristics, and therefore the framework needs to be further justified. Third, the study offers a holistic view to understand SME internationalisation, but it does not examine the temporal nature of firms' development and internationalisation process. This is an important aspect to research further, particularly for comparing the findings with internationalisation theories, such as stages models which consider incremental development over time.

CONCLUSION

This study contributes to the SME internationalisation literature by demonstrating the connections between manufacturing strategy (specifically manufacturing priorities) and internationalisation strategy. It also offers valuable insights into SMEs' subcontracting behaviour which is a relatively under-researched area.

This study introduces a new perspective to understand small- and medium-sized manufacturers' internationalisation, particularly their practical operations. Manufacturing strategy is directly competitive advantage oriented. It involves value chain configuration and coordination which are a major concern of firms' internationalisation pattern and strategy. There is little research to date on the role of manufacturing priorities as integrated elements of SME internationalisation. We argue this approach may to a certain extent address 'the question of how internationalisation fits into the overall set of activities in which the firm is engaged…' (Jones, 1999, p.37) specifically in the manufacturing SME context. In addition, as indicated earlier, the conceptual framework developed upon preliminary findings is still primitive. It remains open for future research to further explore the intersection between these two strategies on its basis.

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Appendix 1 ***Researched Firms' Characteristics***

No.	Staff number	Est. year	Sales Turnover (NZ$M)	Ownership	Export	Main Product	Sourcing	Use and location of Sub-contractors	Market Position
A	30	1982	2.5	Family business	20% output to Aus.	Sportswear, Uniforms, Seat Covers, etc.	Mainly the UK, Taiwan, Korean, Mainland China	Local factories when needed	Low-end to upper-middle level
B	35	1919	5	Family based partnership	Aus. & Asia	Apparel accessory	Mainly Germany	China	Low-end to upper end
C	65	1994	5	Family business	From prior 24% down to 8%, Mainly Nor. America.	Hunting and fishing, rural farming clothing, and corporate wear	Mainly Europe and the US	Local factories when needed	Upper level
D	80	1941	12	Partnership	A little to Aus, but starting	Corporate Wear (uniforms)	Overseas	China, and local factories	Upper level
E	120	1877	50	Partnership	Aus. & Asia	Outdoor Gear, camping products	Overseas	China	Upper level
F	160	1944	20	Family based partnership	55% output to Aus	Menswear (Suit, shirt, etc.)	Mainly the Europe, South America, South Africa, Asia	China	Middle to upper level