

Identifying paths of SME pursuing international buyers, and the influence of third parties: a promising tool for Latin American Agri-Food SMEs

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Abstract

The present paper analyses the effective processes that agri-food SMEs from Latin America have followed to obtain the necessary resources and capabilities so as to reach an international buyer. Drawing upon theories on Resource-based view (Barney 1991) and social network (Granovetter 1973), qualitative data collected empirically from five agri-food SMEs in Mexico are compared and contrasted using a grounded theory approach (Eisenhardt 1989). A set of testable propositions suggest that agri-food SMEs in Latin America go through three events that ultimately leverage unique resources and capabilities

Keywords: *third parties, strategic alliance, network, resource-based view, agri-food SMEs*

Introduction

Nowadays globalization has led many SMEs to pursue international markets (Kaleka 2002). In order to comply with the conditions set up by international markets, SMEs have the necessity to catch up with the different regulations embedded in an internationalisation strategy (i.e. exportation) in terms of knowledge, production capacity, product specifications, and trade policies. However, SMEs have been regarded by several authors as resource constrained organizations (Bijman 2003, Dentoni 2010) where core resources and competences are hardly available and especially when it comes to organizations dealing with less technology-intensive products (i.e. agrifood products). Therefore for SMEs to obtain core resources and competences so as to meet the conditions present in international markets; it has been found that SMEs are to pursue strategies such as the pooling of resources with other parties both inside and outside the supply chain that ultimately can leverage strategic capabilities (Johnson et al. 2009). Strategic alliances are regarded as strategies that enable firms pooling resources in order to obtain a more robust set of resources and competences (Johnson et al. 2009); more informal types of alliances (i.e. networking, resource sharing, etc) have been identified among small firms. Moreover, in other instances SMEs have obtained valuable resources and competences upon networking with third parties that are outside the supply chain such as organizations or individuals from the public sector -i.e. Business Development Service Organizations (BDSOs) and Trade promotion organizations (TPOs)- and organizations or individuals from the private sector such as chambers of commerce and agriculture organizations (Yusuf 1995). Major information on international markets (Bellocca and Di Maiob 2011) as well as sources of technical and financial support have been identified as resources enabled by these type of organizations (Sud 2010; Bellocca and Di Maiob 2011). Despite some scholars have researched on the resources and competences that ultimately become sources of competitive advantage for companies pursuing international strategies (i.e. exportation) (Kaleka 2002) the majority of these studies have focused in some cases on companies from developed countries (Kaleka 2002) and on companies with technology-intensive products but very rarely on small firms from developing countries. Moreover neither the processes by which such resources and competences were obtained nor the stage at which more resources and competences were obtained have been addressed by previous studies. Therefore in order to understand how these processes have taken place in the context of small firms from developing countries, we research five organizations from Latin America that obtain resources and competences over time and which ultimately became strategic capabilities leveraging their competitive advantage in international markets. We posit that the different events identified within the processes followed by these organizations and the resources and competences obtained through the creation of such event can bring lessons on the type of process that agri-food SMEs should follow to ultimately meet the conditions in international markets. We move forward in the next sections by introducing the theoretical background and methodologies that ultimately are utilized in the formulation of the testable propositions presented in the last part of this paper.

Theoretical background

The resource-based view

The resource-based view perceives the firm as a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing resources and capabilities, while developing the firm's resource base for the future (Grant 1996). In turn, resources and capabilities can be viewed as bundles of tangible and intangible assets, including an organization's management skills, its organizational processes and routines, and the information and knowledge it controls (Barney 1991). Nevertheless according to Eisenhardt (2003), attributes such as valuable, rare, inimitable and non-substitutable (VRIN attributes) that are embedded in one or more resources and capabilities, determine the competitive advantage and superior performance of an organization. Some examples of resources that deliver such attributes as to become a competitive advantage are for example, a powerful brand, or a technological patent (Johnson et al. 2009). However, overall, it is more likely that capabilities may be found as the sources of distinctiveness within a small organization (Johnson et al. 2009), and even more when it comes to non-high-technological small organizations (i.e. Agri-Food SMEs)(Ellram and Ogden 2007), as this type of organizations need to cope with the downsides of competing against non-differentiated products' huge competitors (Ellram and Ogden 2007), whose resources and capabilities are far more developed(Johnson et al. 2009). In an attempt to balance this issues, some of the approaches used by small organizations in the quest to reach competitive advantage have included organizing themselves in larger organizations with variable levels of governance (Bijman, Ton, and Meijerink 2007), whereby more resources and capabilities can be pooled though independency is limited (Anderson and Gatignon 1986). Another approach, has been viewed as an art called 'bootstrapping'(Ebben and Johnson 2006), whereby small organizations squeeze the resources and capabilities they have at hand in order to reach a competitive advantage (Timmons and Spinelli 1994), such resources and capabilities may be externally requested and borrowed by small organizations (Timmons and Spinelli 1994) and yet, not to undermine their independency. Nonetheless, Nelson and Winter (; 1982) highlight that for organizations to eventually obtain unique resources and/or capabilities that may deliver competitive advantage, routines and processes embedded in an organization need to take place over a long period time (path dependence) to finally result in the procurement of a unique resource or capability (i.e a dense marketing network, a global brand), unless such unique resources or capabilities may be obtained in short periods time by casual ambiguity. From this theoretical background on resource-based view, we come up with two propositions that will provide with direction for our research 1) by finding out how some approaches such as pooling resources or bootstrapping, undertaken by small organizations have leveraged unique resources and/or capabilities to these organizations (i.e. social ties with high-status third parties, customer building relationship capability) that either were developed on a long term or short term basis. 2) by finding out whether routines and processes embedded in an organization and that were undertaken over long periods of time have leveraged the unique resources and/or capabilities or whether the procurement of such unique resources and/or capabilities was leveraged by external factors independently from the path dependence.

The importance of social ties with third-party actors

According to Ahuja (2000) a way in which knowledge can be transferred and resources can be pooled across organizations is by building networks. These social networks are defined as ‘set of nodes’ (i.e. organizations, people) linked by a set of different types of relationships (i.e. friendship, fund transfers, overlapping membership) (Laumann, Galaskiewicz, and Marsden 1978; Dentoni and Reardon 2010). Nevertheless, weak social ties are regarded as important ties in the context of small organizations (Dentoni and Reardon 2010), since they bring new knowledge into organizations (Granovetter 1973). Also Dentoni (2010) highlights the key role that plays the position in a dense network of such organizations or individuals with which small organizations build social ties. As their market status plays a crucial role as a signal of quality (Podolny 1993), As result of the latter, some small firms have been capable of positioning their labelled products into differentiated market channels (Holtz-Eakin 2005) Parallel to this, some authors (Darby and Karni 1973; Humphrey 2005) have stressed the importance of building a brand to have a product image linked to credence attributes, as these attributes are cues from which consumers elicit quality features, but are not physically perceived either before or after consumption (Darby and Karni 1973). Moreover, Humphrey (2005) suggested that by building a brand of a strong country-of-origin image, Agri-Food SMEs can pursue successful opportunities in international markets. Yet, more credence attributes such as organic, fair-trade, environmental-friendly related to Agri-Food products have been identified in the literature and are receiving growing attention (Van der Lans et al. 2001; Dentoni et al. 2009). Since they have become a tool by which SMEs can pursue brand equity, as their small brands are recognized by a set of consumers that demand high-quality, sustainable, and different products (Humphrey 2005). Therefore combining the theoretical framework on social ties with third-party actors and credence attributes, I come up with a second proposition that seeks to address and explore 1) how the social ties built between third parties (i.e. TPO, among others) and SMEs have brought resources and capabilities into the SMEs which in turn have facilitated the transaction with international buyers. 2) Find out whether credence attributes have been determinant in the transactions with international buyers.

Data and methods

Sample and case selection

We follow an inductive, theory building, case-study approach (Eisenhardt 1989; Yin 2009). In particular, the empirical observation from the cases is compared and contrasted with the resource-based view (Barney 1991), and social network theory (Granovetter 1973; Gulati and Gargiulo 1999). We follow a multiple-case approach (Yin 2009) to compare and contrast different processes of obtaining the necessary resources and capabilities to reach out international buyers. Five cases were selected in order to get a more robust sample that could enable theory formulation in later stages (Eisenhardt 1989). The cases were selected purposively to understand “discontinuity and disequilibrium” across them (Cooper and Morgan 2008).

First, we chose organizations of different ages which were founded by groups of entrepreneurs and eventually showed exportation activity in order to have enough history to observe and analyse in gaining the necessary resources and capabilities so as to meet the requirements of the exporting activity (Ebben and Johnson 2006). Nonetheless, alliance-based organizations (such as farmers’ cooperatives) were regarded as suitable for this research as they may have got resources or capabilities by pooling them. Second, organizations that were ranging between 1-50 employees including part-time or informal workers (Peres and Stumpo 2000) were selected in order to stick to the concept of small and medium enterprises in Latin America. Third, the cases were selected in Mexico and were compared and contrasted with data and literature on cases from other Latin American countries, especially Costa Rica. Fourth, the selected cases were a mix of 1) organizations that already obtained third-party certifications and endorsement for at least one of the credence attributes among country-of-origin, organic, fair-trade, and environment-friendly; 2) organizations that already obtained an endorsement but not a certification 3) vice versa and 4) organizations intending to gain a third-party certification and/or endorsement to enter into an international market. Fifth, the selected cases include organizations that are marketing comparable agri-food products – i.e. coffee and cocoa (commodity food products), processed fruits (strong related to the country of origin attribute).

Procedure for data collection

In an attempt to screen the likely set of organizations that later would become cases. We first performed brief telephone semi-structured interviews to small and medium organizations in Mexico that seemed to fit the unit of analysis we were pursuing. Organizations were asked whether they exported or had ever exported, what kind of product they exported, whether they had a certification, how long they had been engaged in the export activity, the age of the organization, whether they had attended international fairs and the number of employees. These semi-structured interviews were designed by making use of the criteria set up for the unit of analysis. Afterwards collection of empirical data was performed by means of semi-structured interviews (Ritchie and Lewis 2003), as they allow exploring in depth the background and perceptions of the interviewee on the topics addressed by the interviewer (Ritchie and Lewis 2003; Jarratt 1996)

By making use of the guidelines and hints for the elaboration of semi-structured interviews (Ritchie and Lewis 2003). We proceeded to elaborate a questionnaire which included the main topics the interview unfolds around. Such topics were on the history of organizations, the

organizational map of the organizations, the market segments the organizations targeted on, the internal and external environment of the organizations, the challenges encountered by the organizations along their existence, certifications and endorsements got along their existence, the industrial processes and technology adopted by the organizations, vertical integration in the supply chain of their offered products, marketing strategies undertaken by the organizations and the use of label on their offered products. We posit that by addressing these topics the determinative events that could have forged the processes followed by the cases selected can be disclosed.

To triangulate the data collected from the interviews at the organizations, semi-structure interviews with experts in different topics such as, business development services (DBS), certifications, and SMEs consultancy were performed in order to get a second wave of primary data. Insights in the processes followed by Latin American SMEs so as to meet the conditions set by international markets (i.e. transact with an international buyer).

Secondary data of the organizations were collected from internet through their official websites and through other websites from agricultural organizations, second level cooperatives, distributors overseas, business development organizations, trade promotion organizations, NGOs, certifiers, and specialty food retailers overseas.

In order to interpret the data drew from the fieldwork, we set up sets of criteria that allowed us to follow the recommendations made by Yin (2009). As data collected from case studies are to be triangulated (Yin 2009). First, the data collected from the organizations were analysed individually case by case 1) by drawing upon the transcription of the conducted interviews 2) by elaborating a thorough analysis depicted in the form of a diagram. From this first rough interpretation, we proceeded to start the first steps in the theorization process. Furthermore, taking into account the suggestions made by Van de Ven (2007) in the process study design, we tried to either 1) link elements (i.e. a resource or a capability) found in one process to elements found in another process 2) link external events (i.e. a change of policy in the exportation process) that had a repercussion in the development of certain processes to one or more cases.

After completion of this first step, we continued by conducting a set of interviews with different experts in the topic in order to get approval in the findings as well as get insights in other external issues that might have affected the development of the processes followed by SMEs in Latin America. This step involved an iterative process in which the propositions and theories created in the interpretation of the results were constantly compared, contrasted and refined with the theoretical framework used for this research.

A final step in the interpretation of the findings included the search of evidence like data, records, testimonies, that enabled us the triangulation (Yin 2009).

Finally, an exhaustive search of evidence from different sources (i.e. websites, books and articles) was conducted in order to draw data belonging to 1) the organizations that became cases 2) the third parties that were identified in the processes followed by them 3) examples of other organizations Agri-Food SMEs in Latin America that have reached out international buyers.

Key background data analysis

The results drawn from the five organizations used as study cases were analysed in the tables below which contain a detailed assessment of the resources and capabilities that the organizations obtained over time (Kaleka, 2002). Each table accounts for an overall event that was identified in each specific case study process, though sometimes it took place either earlier or later in the process.

Tables 1, 2 and 3 are attached at the end of the document

By drawing upon the suggested resources and capabilities that bring a competitive advantage in export markets (Kaleka 2002); we proceed to assess 3 events that were clearly identified within the five study cases for this research. Arranged in two main sets; one for resources and one for capabilities which in turn are sub-arranged in sub-sets of resources and capabilities, we assumed that once an organization had obtained the majority of these resources and capabilities they were ready to engage actively in the exporting activity. The latter also matches with the insights and feedback got from different interviews realized to experts in the subject, and literature on resource-base view (Barney 1991). However, it is important to stress on the fact that this step of assessing the organizations with regard to the resources and capabilities suggested by Kaleka (2002); is only realized taking into account the internal events that took place in the organizations, and therefore events or factors that may have affected those internal events are analysed in depth in the overall findings section of this report.

Findings

The overall processes of agrifood SMEs from Latin America when entering international markets

In an attempt to identify and describe the processes that agri-food SME have undertaken to enter international markets; five cases from Mexican agri-food SMEs have been researched. However this sample could not allow us to generalize the findings in this respect for the whole Latin American SMEs context (Yin 2009). Therefore we have opted to carve out our findings and reinforce them by getting the remarks and insights of experts from different fields (Eisenhardt 1989). The latter has provided us with a reliable source of information to test the findings we originally drew from the studied organizations; and has broadened our understanding on the different aspects that a developmental process may imply (Van de Ven 2007).

Following this track, we go on by comparing and contrasting similarities and peculiarities that were found in the five studied cases with the literature on the resource-based view (Barney 1991), social networks (Granovetter 1973) and international economics (Reference), the latter with the aim of getting insight on the external factors and events that affected the processes undertaken by the studied organizations. Moreover, following the recommendations and validations made by the experts we introduce propositions on the effective processes that Latin American SMEs have followed so as to find international buyers and the implications that this processes have had.

The need for pooling resources

As found in the literature on transaction cost; smallholders hardly can aspire to an international market by their own means (Bijman and Hendrikse 2003). Contrary to that, smallholders have opted in many instances to pool their resources in a way to join endeavors towards a competitive advantage (Johnson et al. 2009). Cooperatives are a tangible example of this reality (Bijman and Hendrikse 2003). Yet, a group of entrepreneurs also match this ideology of pooling resources (Timmons and Spinelli), as they want to avoid risk to a certain extent, and they look for obtaining other resources and capabilities from others (Timmons and Spinelli).

In the context of Latin American small and medium organizations it has been found that organizations have been formed by at least three or more stakeholders (udlap 2008) . Moreover, cooperatives have been found to be the main type of configuration for organizations that are commercializing commodities –i.e. coffee, pepper, sugar, among others (Raynolds, Murray, and Leigh Taylor 2004).

Furthermore in this research all of the studied organizations were found to have started their process towards internationalization by forming a group of shareholders that contributed with resources and capabilities, which were ultimately pooled.

Some of these resources and capabilities obtained at first instance by forming a group of entrepreneurs are clearly comparable with those suggested by other authors (Kaleka 2002) and which ultimately become a source of competitive advantage in the internationalization process (i.e. exportation).

Also, at this point looking inwards at the process undertaken by an SME; social networks play an important role, by pulling together entrepreneurs by means of the strong ties built among them in

order to start an organization. As, these strong ties prompt the level of trust that is necessary for the shareholders to commit their resources, ideas, time and endeavors. In this respect, all of the studied organizations showed to be formed by groups of entrepreneurs that beside of being shareholders had built strong friendships among them.

Moreover, two other factors have been found to drive entrepreneurs into this action of pooling resources. One seems to be the accrued experience over the years that one or more entrepreneurs forming a group of entrepreneurs may have in the exportation process; as for this research, 3 out of 5 companies studied showed that at least one of the shareholders forming the firm had worked in the past within a company engaged in exportation or had exported on their own. The other one seems to be an external event that strongly threatened or prompted the wellness of one or more entrepreneurs (i.e. downsizing, a plague, job offering, opportunity identification, etc); as in all of the cases there was always a motive for the entrepreneurs to start a new venture either perceived as a threat or opportunity (Johnson et al. 2009). However, this factor is more linked to economic and social issues which are later further addressed.

We come up with a testable proposition that underpins the effect of opportunities and threats found in the environment of the entrepreneurs, as we found that these two factors could have a greater and so far less analyzed impact in the decision-making process that a group of entrepreneurs follow to pool their resources

P1: The more urgent the opportunity or threat is to the environment of one or more individuals (entrepreneurs) the more responsive they become to pool resources so as to create a new venture regardless whether they have or not international experience.

Forming an alliance

The formation of a dyadic strategic alliance has been studied by several scholars (Gulati and Gargiulo 1999). The networks in which firms are embedded have been identified as key precursors of strategic alliance formation (Gulati and Gargiulo 1999); as individuals with whom firms have been found to establish an alliance are present in these networks (Gulati and Gargiulo 1999). Moreover, a strategic alliance formation with a separate group of entrepreneurs or stakeholders either within the supply chain or outside the supply chain has been also regarded as a way of pooling and obtaining more and unique resources and capabilities that leverage competitive advantage (Johnson et al. 2009); or at least the threshold resources and capabilities that a firm needs to compete at the different market levels (i.e. locally, nationally, and internationally). In that sense some organizations in Latin America have opted to seek for that second level of integration. In the case of the cooperatives this could be seen when cooperatives join second level cooperatives (Peres and Stumpo 2000), while in the case of small agri-food firms this could be seen as partnerships, or less formal alliances formed with other firms from the same sector or a different one. With regard to our analyzed sample of five organizations, we found that 4 out of 5 organizations have formed one or more alliances with one or more stakeholders in the supply chain or outside the supply chain, which have brought more resources and capabilities into the organizations, and ultimately have enabled them exporting.

Perhaps a clear example of organizations that have obtained valuable resources and capabilities when forming alliances are cooperatives (Bijman and Hendrikse 2003). In the literature of transaction costs some cooperatives mainly in Central America have been identified as having

formed partnerships among them (Mendez 2002); building up clusters of cooperatives that attained higher volumes, more access to finance, valuable sources of supply, valuable sources of exporting experience, strategic localization, among others. In our sample of five cases only one organization was a cooperative and effectively this cooperative could obtain such type of resources and capabilities as the ones above mentioned, once they started networking with a second level cooperative.

Furthermore, the formation of a strategic alliance is closely related to the level of trust between the parties (Johnson et al. 2009), and although it is suggested by Granovetter (1973) that novel resources and capabilities are generally drawn into the organizations by means of weak ties, mainly built among the organizations and the stakeholders or entrepreneurs with whom they form the alliance; in some cases the latter can imply uncertainty and opportunistic behavior from one of the parties forming the alliance (Johnson et al. 2009). Therefore, in many cases strategic alliances pursued by SMEs have been with close contacts, friends, suppliers, among others (Mikkelsen 2001), and hence this has not had a positive effect in the procurement of novel and valuable sources and capabilities that enable access to exporting markets (Mikkelsen 2001); as many times the social ties involved were identified as strong ones (Granovetter 1973). In the study cases for this research, 2 out of 5 organizations were found to have formed a strategic alliance with individuals with whom they had weaker social ties (i.e. foreign investors, foreign distributors); this in turn leveraged much faster resources and capabilities that are valuable in the exportation activity. Differently, also 2 out of the 5 cases were found to have formed strategic alliances with close friends or individuals they trusted, and though also resources and capabilities were obtained through these alliances these organizations were focused first in the local markets.

With regard to the above reviewed points, we come up with two testable propositions that underpin the influence of social ties on the formation of strategic alliances and the influence of the nature of the formed alliance on the type of resources and capabilities.

P2: The less experienced on international market an SME is the more valuable a strategic alliance with a non-familiar partner becomes in the procurement of unique resources and competences so as to meet conditions to pursue an international strategy

P3: The more experienced on international markets a SME is the less valuable a strategic alliance with a non-familiar partner becomes in the procurement of unique resources and competences so as to meet conditions to pursue an international strategy.

The need of support from third parties: Business development service organizations

Small and medium organizations may have obtained some valuable resources and capabilities from a strategic alliance with a trustworthy partner (Mikkelsen 2001). Yet, in pursuing of a foreign buyer in many instances the obtained resources and capabilities are not configured enough so as to deploy them in a way to meet foreign buyer's requirements (Mikkelsen 2001); as it has been suggested by some scholars that these competencies are built up by bringing new knowledge and experience from outside (Mikkelsen 2001).

In a way to overcome these issues; governments often have undertaken actions to create business development service organizations (BDSOs) (Mikkelsen 2001; Sud 2010; Bellocca and Di Maiob 2011). In this process, governments have had as premise that these organizations can supply the

services for SMEs to develop their competencies. Dissemination of information, assistance in export marketing, and general training about export activity, has been identified as some of the services offered by these organizations (Ten Kate 1992).

In a Latin American context, TPOs have played a key role in supplying development services (Ten Kate 1992; Mikkelsen 2001). Motivated by the fact that SMEs create new job opportunities (Vives 2006); governments have undertaken actions to improve the performance of TPOs (Ten Kate 1992; Sud 2010). It has been found that TPOs training programs have addressed technical, managerial, social, and cultural aspects (Ten Kate 1992); which in a way has brought further valuable capabilities into SMEs (Wilkinson and Brouthers 2006). In our five studied cases we found that all of the cases were supported technically and financially during attendances to national and international events i.e. fairs, symposiums, workshops, etc. Also, training programmes on several subjects such as organic agriculture, certifications, among others were promoted by public BDSOs.

Moreover though embedded in our cases private BDSOs were not found, we ran across with some private BDSOs that are supporting small agri-food firms to cope better with the international market demands in a manifold way (i.e. by giving them advice whether or not to enter an international market, by assessing the feasibility of the SMEs, by supervising them in raising funds, by enabling their networks, by lending translation and other services, etc). Overall, these private BDSOs are individuals with a lot of expertise on management and other fields, or even NGOs mostly founded in Europe (i.e. twin trading, etc).

Despite business development organizations are not intended to attain a major commitment with the organizations they supply (Mikkelsen 2001); key contributions are drawn from BDSOs towards SMEs which enhance and redesign the particular resources and capabilities owned by each firm (Mikkelsen 2001). In the table 3 displayed in the previous chapter; we find that SMEs come to have access to important sources of financial assets –i.e. credits, loans, grants, among others- which SMEs use to cover expenses in international trade promotion. Moreover, SMEs broaden their portfolio of likely suppliers and buyers domestically and internationally by means of the databases that BDSOs facilitate -i.e. PROMEXICO (Promexico) and PROCOMER (Costa Rica). According to Ten Kate (1992) information about quality standards for food processing, labeling and packaging is diffused by BDSOs into SMEs. Thus, certification procedures become available to SMEs as well, as they start transacting with BDSOs. Also, export's experience is transferred towards the management team and owners of small firms (Mikkelsen 2001), as the implicit knowledge on exportation of the BDSOs becomes available for SMEs.

Finally, if we see in table 3 there are also two capabilities within SMEs that are enhanced by the interaction with BDSOs. First, the informational capability suggested by Kaleka (2002), undergoes an improvement as SMEs are in a better position and have at their reach a new source of information on international market (Mikkelsen 2001). Second, the supply chain capability of SMEs is strengthened by the procurement of a broader portfolio of suppliers. From our studied cases, we found that 2 out of 5 cases had obtained both capabilities in previous events that took place within the organizations, namely, “formation of a group of entrepreneurs” and “formation of a strategic alliance” and this influenced by the experience on exportation markets that the entrepreneurs had.

Following the above addressed issues, we come up with two testable propositions that underpin the influence of BDSOs on Latin American SMEs' performance in finding international buyers and the relevance of novel resources and capabilities facilitated by BDSOs to SMEs in Latin America.

P4: The less experienced a SME is on international markets the more valuable networking with BDSOs becomes in the procurement of unique resources and capabilities so as to match conditions to pursue an international strategy

P5: The more experienced a SME is on international markets the less valuable networking with DBSOs becomes in the procurement of unique resources and capabilities so as to match conditions to pursue international strategy

What can agri-food SMEs find outside? - A trend by SMEs to find competitiveness in international markets

As briefly commented in the first event 'pooling of resources' identified in the processes that agri-food SMEs from Latin America are undertaking to reach international buyers, in the next paragraphs we discuss some external factors that have had strong implications in the developmental processes of SMEs and that have to do more with the environment and context in which Latin American SMEs are embedded, and which sometimes are seen as threats, whereas in other instances they are seen as opportunities.

SMEs have been found to pursue international strategies more frequently since the last two decades (Hollenstein 2005). Since the international policies for trading have changed (Mikkelsen 2001), leaving open the opportunities for them to pursue share in distinct markets (Mikkelsen 2001). At the same time, transnational firms, among which, retailers and wholesalers stand out, have taken advantage of the same international policies (McCullough, Pingali, and Stamoulis 2008). So as to establish their own systems of distribution and setting up their own payment policies (McCullough, Pingali, and Stamoulis 2008).

In the context of Latin American SMEs this issue have had an impact in two different directions. Firstly, some SMEs have perceived the openness of the world trade as an opportunity to get better returns for their products offered to international clients, since in the local markets they have encountered barriers set by transnational firms and retailer chains. From the 5 studied cases, we found that for 3 out of 5 cases, it has been better for them to try to export their products overseas, as they get better returns for them internationally than locally, and especially when their products are commodities, or products highly associated with credence attributes - i.e. organic coffee, fair trade, etc.- firm managers have stated that if they do not go international the business becomes unsustainable.

“Unfortunately here in this area the culture of organic products consumption is still incipient. Therefore we have got to seek for markets outside this area of Southeast Mexico and even outside the country, where our product is far more valued (...) At first our product has an added value, secondly the plant bears less fruit when growing organically, it has a lower yield in comparison with the conventional production, hence the overall costs increase and therefore you cannot sell it at the same price like conventional product, otherwise you go bankrupt”

Secondly some firms have perceived the openness of the market as a threat, and therefore have opted to strengthen their core businesses in a local level. From the 5 studied organizations 1 was found to be willing to bet more for the local market and strengthen its operations locally, although from time to time they have exported.

Moreover, high barriers have been set by these changes of policies in the world trade for smallholders and small and medium organizations to compete in their domestic markets (McCullough, Pingali, and Stamoulis 2008), and for those small and medium organizations manufacturing fresh raw materials this scenario has become even worse (McCullough, Pingali, and Stamoulis 2008), given that the market for fresh raw materials (i.e. agri-food products) is dominated mainly by larger organizations, which possess certified production processes, better configured distribution channels, and traceability systems to meet quality standards and requirements set by retailers at domestic and international markets (McCullough, Pingali, and Stamoulis 2008). In accordance with the latter, we found that effectively fresh products such as chilli and avocado have encountered higher barriers to enter international markets. 2 companies out of the 5 companies studied were found to have produced fresh products in first instance but later during the formation of the new venture they switch to a processed product and undertook a process to reach an international buyer.

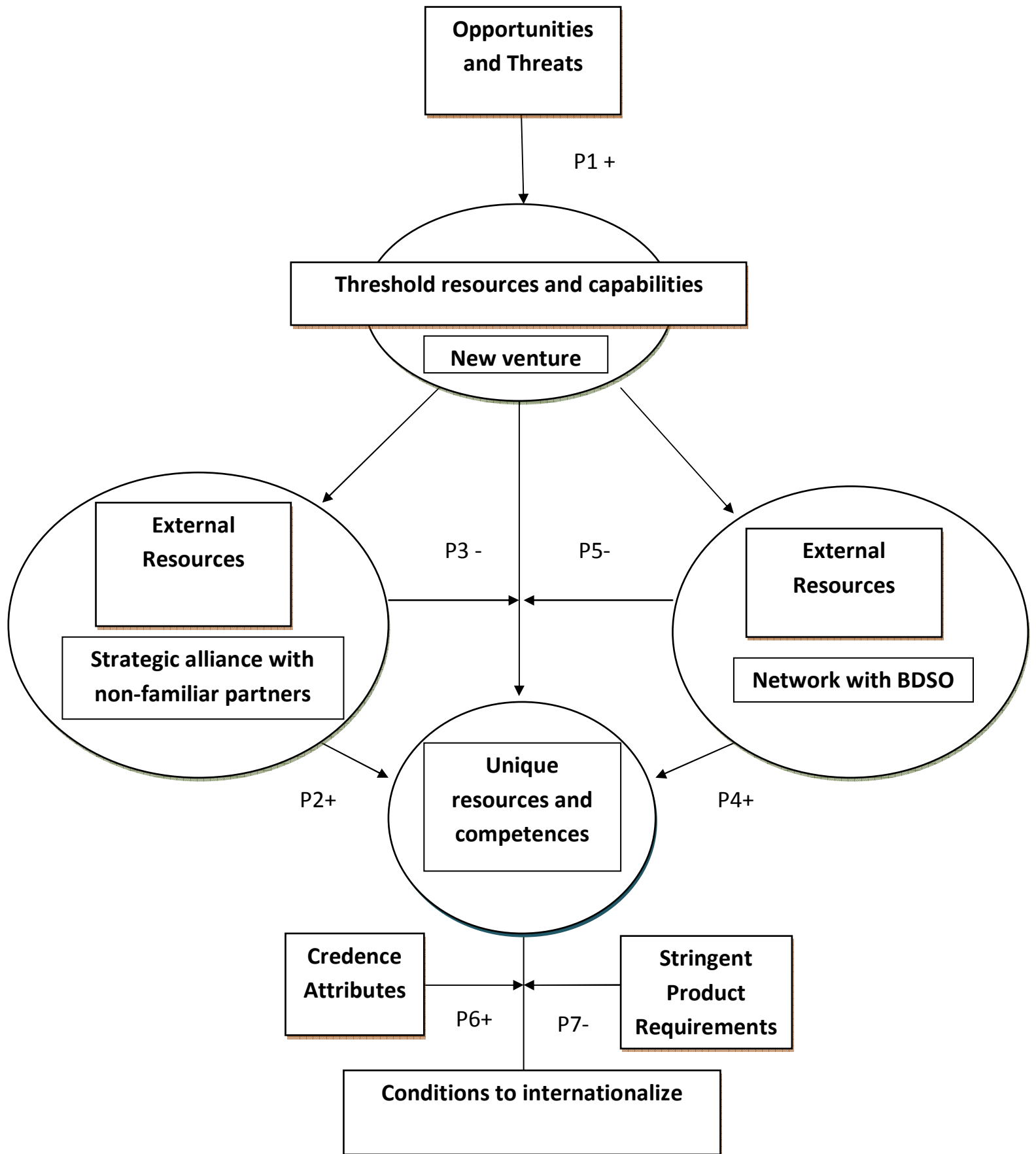
Also, it is important to considerate that a large share on Agri-food processed products has been left at the reach of small and medium organizations especially in developing countries (Regmi and Dyck 2001). As the availability of the raw materials is greater (McCullough, Pingali, and Stamoulis 2008) and the quality standards imposed by retailers and other international wholesalers are less stringent for agrifood processed products (Regmi and Dyck 2001). In this sense, we found that all of the studied cases have taken advantage of this external factor, and the availability of the products has played an important role for them to bet for international markets and comply with the volumes requires. As a proof of the later, all of the cases were found to be set up in areas where the product is either abundantly produced or readily supplied at a low price (i.e. food market in Mexico City).

Again, we propose two testable propositions that seek to address the way in which these external factors have shaped the processes undertaken by SMEs and the implications they have had in setting the conditions for a SME to follow an international strategy (i.e. exporting)

P6: The more the products manufactured by agri-food SMEs in Latin America are associated to credence attributes the more SMEs are ready to meet the conditions for internationalization.

P7: The less stringent are the requirements for the product offered by agri-food SMEs in Latin America the more SMEs are ready to meet the conditions for internationalization

Figure 1: The proposed conceptual framework for Latin American SMEs



Conclusions

In order to understand the effective processes undertaken by SMEs to obtain the necessary resources and capabilities so as to meet the conditions set by an international market (i.e. an international buyer); diverse processes undertaken by five agri-food SMEs were studied with the objective of figuring out the events that underpinned the procurement of unique resources and capabilities within the organizations. By following a process study approach (Van de Ven 2007) three events were found to underpin the procurement of such resources and capabilities as those that leverage a sustainable competitive advantage in international markets (Kaleka 2002). Moreover stuck to a grounded theory approach (Eisenhardt 1989), seven testable propositions were formulated by drawing upon theories on resource-based view (Barney 1991) and social networks (Granovetter 1973), as well as by comparing the empirically collected data with the extant literature on SMEs in Latin America (Mikkelsen 2001). We highlight in the next paragraph four main conclusions drawn through this study and we suggest that their lessons can be adopted by other organizations that are in a similar context as those organizations studied in Mexico.

First, by pursuing a similar process as the one traced for our five cases in Mexico, organizations embedded in similar contexts like those from Mexico are more prone to obtain the necessary resources and capabilities needed to meet the requirements set up by international buyers –i.e. retailer chains, distributors, wholesalers, among others. This from the fact that the three events proposed, namely ‘group of entrepreneurs formed’, ‘strategic alliance formed’ and ‘network creation with public or private market development agencies’ took place in a time line and underpinned the procurement of most resources and capabilities within the studied organizations. Furthermore some of the obtained resources and capabilities became unique resources and capabilities over time by which organizations ultimately meet the requirements of an international buyer. This result is consistent with the theory on resource-based view (Barney 1991), and mainly with Nelson and Winter (1982) who suggested that unique resources and capabilities that deliver competitive advantage (i.e. a portfolio of clients overseas) need to be obtained through processes and routines that take place over time. Second, organizations can draw unique external resources and competences from strategic alliances formed with non-familiar partners. In turn, such resources and competences can ultimately deliver competitive advantage when meeting the conditions of an international strategy (i.e. exportation). This conclusion is consistent with Eisenhardt (2003) suggestion on the valuable, rare, inimitable and non-substitutable (VRIN) attributes embedded in the resources and capabilities. Moreover, this conclusion also matches Granovetter’s theory on social networks (1973) where he states that weak social ties (i.e. social ties with non-familiar individuals) prompt more the flow of novel information among individuals. Third, organizations can draw unique external resources and competences by networking with public and private market development agencies - i.e. business development services (BDS), trade promotion organizations (TPO), market development organizations agencies (MDA) - especially when they do not have any experience in international markets. It is well known that this type of organizations supply training, technological and technical assistance and enable loans and grants to SMEs to undertake international marketing strategies (i.e. attending an international fair). Therefore our finding is consistent with Kaleka’s proposed sets of resources and capabilities (2002) and therefore we suggest that mostly experience-based resources and informational capabilities can be obtained by organizations by networking with this type of third parties.

Fourth, the nature of the products offered by agri-food SMEs plays an important role on the readiness with which SMEs meet the conditions of an international market. Such a nature needs to be linked to product attributes or to whether the offered product is processed or not. On the one hand this finding is consistent with Humphrey (2005) who suggests that SMEs can enter global food chains by pursuing niche marketing strategies where also credence attributes play an important role. On the other hand this finding matches Regmi and Dick (2001) findings on the less stringent requirements in international markets for processed products from developing countries.

We posit that the above summarized findings, if confirmed in future research, may have implications mainly both on agri-food SMEs pursuing a strategy for internationalisation and on policy makers. First, agri-food SMEs embedded in a similar context like the studied cases pursuing an international strategy may make a self-assessment and determine whether they are likely to meet the conditions of an international market. Moreover, policy makers could foster the design of more accurate instruments to assess the feasibility of agri-food SMEs to meet the conditions of an international market. Second, agri-food SMEs pursuing international markets, can consider forming a strategic alliance with a non-familiar partner organization as a means to obtain unique resources and capabilities. Such non-familiar partners can be preferably organizations that are embedded in a different context from the one the focal organizations are in –i.e. distributors, companies or entrepreneurs in foreign countries-. Third, agri-food SMEs with limited experience on export markets could boldly approach third parties such as public and private market development agencies (i.e. TPOs, BDSOs). Moreover, policy makers could enhance the performance of public and private market development agencies by introducing programmes that may enable passing on experience on international markets and informational capabilities from the agencies towards the agri-food SMEs. Finally, agri-food SMEs that match most of the suggested list of resources and capabilities (Figure 4) could ensure to meet sooner the conditions of an international market either by switching from a conventional product to a product more linked to credence attributes (i.e. conventional coffee – organic coffee, conventional cocoa – fair trade cocoa) or by switching from a fresh product to a processed product (i.e. fresh avocado – frozen avocado mash, fresh chilli – dried chilli powder). Policy makers in developing countries could promote more programmes to encourage agri-food SMEs to offer processed products rather than fresh products in the international markets. Also, when the products are commodities this initiative should be promoted to encourage agri-food SMEs to offer commodities with credence attributes rather than just conventional commodities.

Due to the exploratory nature of the present research (Yin 2009), we acknowledge that there are multiple limitations in the generalization of the findings. First of all, since the sample size for this study involved five organizations from the targeted geographical area, namely, Latin America, and moreover the context among the different countries encompassed in this area varies in terms of infrastructure, institutions, policies, and other conditions governing the international trade. Nevertheless, we suggest that by assessing a more robust sample of organizations in other Latin American countries more compelling results might be found. Finally, the inclusion of proxies that may enable measuring certain variables - i.e. proximity to target market, strength of social ties with partners, etc. – might facilitate as well the use of quantitative methods.

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Attached documents

Table 1: Resources and capabilities available in the first overall event “Group of entrepreneurs formed”

	DIPROANSA	TOSEPAN	FROZAVO	LOLTUN	KINCHILES
RESOURCES					
FINANCIAL ASSETS					
Stock	X		X	X	X
Bond	X			X	
Bank deposit (savings)	X	X	X	X	X
Loans		X			
Grants					
PHYSICAL ASSETS					
Technology			X		
Knowledge on the production process	X		X	X	X
Preferential access to unique sources of supply	X	X	X		X
Geographical proximity to the export target market			X		
Production capacity availability			X		
Brand			X	X	X
Fleet		X			
Facility			X	X	
Certification					
Lands		X	X		X
SCALE OF OPERATION					
Annual turnover					
Number of full-time personnel					
Personnel engaged in the export activity	X	X	X		
FIRMS EXPERIENCE					
Length of time exporting	X		X		
Number of ongoing exporting ventures					
Market knowledge	X		X		
Past performance in export markets	X		X		
CAPABILITIES					
INFORMATIONAL CAPABILITY					
Ability to make contacts in export markets	X	X			
Ability to identify prospective customers overseas		X	X		
Monitoring competitive products in export markets					
Ability to capture important foreign market information	X		X		
CUSTOMER RELATIONSHIP BUILDING CAPABILITY					
Exporter's ability to understand the requirements of overseas customers and establish and maintain close export business relationships	X		X		

PRODUCT DEVELOPMENT CAPABILITY					
Development of new products for export markets			X		
Improvement and modification of existing products					X
TECHONOLOGICAL INNOVATION CAPABILITY					
Adoption of new methods and ideas in the production/manufacturing process					X
SUPPLY CHAIN CAPABILITY					
Ability to identify attractive sources of supply and establishment	X		X	X	X
Ability to develop and establish strong relationship with suppliers	X		X		
TOTAL OF RESOURCES AND CAPABILITIES AVAILABLE IN THE FIRST EVENT	14 out of 32	8 out of 32	20 out of 32	7 out of 32	9 out of 32

Table 2: Resources and capabilities available in the second overall event “Strategic alliance formation”

	DIPROANSA	TOSEPAN	FROZAVO	LOLTUN	KINCHILES (N.A)
RESOURCES					
FINANCIAL ASSETS					
Stock	X	✗	X	X	X
Bond	X		✗	X	
Bank deposit (savings)	X	X	X	X	X
Loans	✗	X			
Grants					
PHYSICAL ASSETS					
Technology	X		X		
Knowledge on the production process	X	X	X	X	X
Preferential access to unique sources of supply	X	X	X	✗	X
Geographical proximity to the export target market	✗	✗	X		
Production capacity availability	✗	✗	X	X	
Brand			X	X	X
Fleet	✗	X	✗	✗	
Facility	✗		X	X	
Certification	✗	✗	✗		
Lands	✗	X	X		X
SCALE OF OPERATION					
Annual turnover	✗	✗	✗	✗	
Number of full-time personnel	✗	✗	✗	✗	
Personnel engaged in the export activity	X	X	X		
FIRMS EXPERIENCE					
Length of time exporting	X		X		
Number of ongoing exporting ventures	✗				

Market knowledge	X	X	X	X	
Past performance in export markets	X	X	X		
CAPABILITIES					
INFORMATIONAL CAPABILITY					
Ability to make contacts in export markets	X	X	X		
Ability to identify prospective customers overseas	X	X	X		
Monitoring competitive products in export markets	X	X	X		
Ability to capture important foreign market information	X	X	X		
CUSTOMER RELATIONSHIP BUILDING CAPABILITY					
Exporter's ability to understand the requirements of overseas customers and establish and maintain close export business relationships	X		X		
PRODUCT DEVELOPMENT CAPABILITY					
Development of new products for export markets			X		
Improvement and modification of existing products			X	X	X
TECHNOLOGICAL INNOVATION CAPABILITY					
Adoption of new methods and ideas in the production/manufacturing process			X		X
SUPPLY CHAIN CAPABILITY					
Ability to identify attractive sources of supply and establishment	X	X	X	X	X
Ability to develop and establish strong relationship with suppliers	X	X	X	X	
TOTAL OF RESOURCES AND CAPABILITIES AVAILABLE IN THE FIRST EVENT	12 out of 32	11 out of 32	9 out of 32	7 out of 32	0 out of 32

Table 3: Resources and capabilities available in the third overall event “Network creation with public and private market development agencies”

	DIPROANSA	TOSEPAN	FROZAVO	LOLTUN	KINCHILES (N.A)
RESOURCES					
FINANCIAL ASSETS					
Stock	X	X	X	X	X
Bond	X		X	X	
Bank deposit (savings)	X	X	X	X	X
Loans	X	X	X	X	X

SUPPLY CHAIN					
CAPABILITY					
Ability to identify attractive sources of supply and establishment	X	X	X	X	X
Ability to develop and establish strong relationship with suppliers	X	X	X	X	X
TOTAL OF RESOURCES AND CAPABILITIES AVAILABLE IN THE FIRST EVENT	4 out of 32	12 out of 32	3 out of 32	9 out of 32	12 out of 32

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