Global – local dilemmas for a medium-sized firm

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Summary

In a rapidly globalizing world, business organizations increasingly operate on a global scale. In order to do so effectively they face the dilemma that, on the one hand, they have to operate globally whereas, on the other hand, they must be firmly rooted in local cultures, markets and power networks and also must accord to local laws. For Multi National Organizations (MNOs), this dilemma focuses on a specific field of management knowledge, Human Resource Management (HRM). MNO’s on the one hand feel the pressure to standardize HRM practices while on the other hand they must implement HRM practices in such a way that they can accommodate a multicultural workforce that operates in a wide variety of market and juridical conditions and power networks.

In this study the following problem is central:

"Which management challenges do internationally operating SMEs face in the globalization – localization dilemma?"

Based on an analysis of contingency factors for SMEs the above, general question is specified into the following research questions:

1. "Which management challenges do internationally operating SMEs face? Is this HRM or are they related to contingency factors for SMEs such as a better planning and control process within the firm in order to have better control of the firm and to increase synergy within the firm, in the case of a commercial firm to select product-market combination(s) and a market approach that will fit best within the company?"

2. Why this choice is made by SMEs, what is the logic of it and what can be the nature of the adaptation?

In Chapter 2 a review of literature on the globalization – localization dilemma for internationally operating organizations is presented. It is seen that most of the existing literature deals with MNOs. These studies underline the relationship of HRM to both cultural dimensions and more general (socio-economic, market, etc.) external conditions and to organizational / structural factors.

When studying which management challenges internationally operating SMEs face, one finds little literature. Some indications of the management choices that do matter for internationally operating SMEs can be found in the literature. The lack of a institutionalized planning and control system as a specific difficulty for internationally operating SMEs is mentioned by some researcher. Also mention is made of the limited financial and managerial resources that will result in an internationalization approach that is often prudent and 'step-by-step'. Some of the scattered literature on the global – local dilemma for internationally operating SMEs also refers to the problem of adequately identifying and serving markets. These indications have been corroborated and deepened in this research.

In Chapter 3 the methodology used in this study, grounded theory, is discussed. The choice to use this methodology was both a challenge to the author, being trained in the physical sciences and holding a PhD in statistics, as well as a necessity given the paucity of literature on the subject. 'Grounded' in this sense means that the theory will be grounded in the data. The data in this study mainly come from an Italian SME, Tekno Point, that is operating in four countries: Italy, Hungary, Romania and Slovakia. The company started in Hungary in about 1990 as a firm selling electrical equipment. This is a market, however with very low margins and strong competition, whence the company changed its profile to that of 'professional supplier of comfort technology'. The Slovakian market is served by an agreement with a Slovakian company. Branches in Italy and Romania started around the year 2000. The number of employees is about 50 (Hungary 35, Italy 10, Romania 5). The owner and president of the company resides in Italy and operates from the Italian branch.

Typical for grounded theory is its approach to data collection and data analysis. In grounded theory the pattern is that, guided by some initial research questions, the researcher will collect a first set of data, preferably quite small. This set of data will be analyzed but after that the research is not completed. Instead, a repetitive sequence of data analysis and data collection
stages begins which is only stopped at the point of theoretical saturation (which might be a theoretical endpoint only). This particular study used three of these repetitive stages. The first stage was in May 2007, when the author visited the company for the first time, aimed at a first analysis of the company. It was concluded at that time that there was insufficient business and management data for a detailed analysis. This in itself seemed to be related to the global – local dilemma as it presents itself to a SME. It was concluded that the first step would be to make that information available.

The second stage was in October 2007, aimed at a deeper analysis of the global – local dilemma for this particular SME on the basis of the now available information. In a series of interviews and workshops held in October 2007 with all managers from each of the branches of the firm and with the owner / director. In the interviews a set of trigger questions developed at the Institute of Future (see van der Heijden et al., 2002) was used that included the four driving factors discerned by de Man & Yang (2005) with respect to local adaptation. A further set of questions related specifically to HRM was added, as was an additional question about the market approach. It was found that the main consequence of the global – local dilemma for the firm was some kind of fragmentation and a subsequent need to improve synergy within the company, in particular with respect to the selection of optimum product-market strategies and channels.

In a third stage, in March 2008, the ideas developed during the second visit and afterwards, have been discussed with the management of the company, resulting in further deepening of the analysis.

Chapter 4 starts with an overview of the four countries Tekno Point operates in terms of their socio-political, economical and cultural characteristics (Chapter 4.1). Slovakia and Italy have the most open modernized economies. Hungary still is, despite its rather modern economy, less entrepreneur-like than Slovakia. Slovakia and Hungary share much of their history and in a sense Italy – as a neighbour of the Austro-Hungarian empire – shared part of that history as well. Romania is more or less the outsider, in a historical (its roots in the Ottoman – Turkish empire), economical (strong focus on oil and natural gas, transition to a modern and open economy not yet completed) and cultural sense. Also its integration into the EU has only recently been started and is far from complete yet. Also with respect to cultural characteristics, Romania stands apart from the other countries.

From a SWOT analysis performed in May 2007, it appeared that, apart from some occasional struggles with language problems, between-country differences were not seen as a cause of a bad ‘fit’ of the company in some country (Chapter 4.2). A focus on Human resource Management because of a global – local dilemma, such as is often reported in the case of MNOS, was not found. Being small, a company like Tekno Point does not experience such problems. It adapts itself one way or another to local conditions and that happens ‘automatically’. Also it was realized that, the more countries the company operates in the larger sales volumes and, consequently, profits can be generated. For a small company like Tekno Point the global – local dilemma seems to materialize in the form of insufficient Planning & Control data and procedures and lack of business information. For an internationalizing SME, the dilemma to its owner / director is that he has to run what has characteristics of a divisionalized firm with the resources of a simple structure. How can he manage and control this? The decision was taken to implement weekly reporting systems of sales and costs. This information system was in place in October 2007.

The management challenge that appears from the SWOT analysis, to strengthen information and control within the firm seems to be related to the contingency factors for SMEs. However, information and control are means, not goals in themselves. Once it is there, what underlying management challenges become apparent? This is the subject of Chapter 4.3. To answer that question during the second visit to Tekno Point in October 2007 a series of interviews were held (Appendix I). It appeared that the need to create synergy within the firm, particularly by selecting optimum product-market mixes and sales channels, was the most prominent management challenge. Again, there seems to be a relationship with contingency factors for an internationalizing SME.
Practical implications of this study and future research are discussed in Chapter 5. Director / owners and managers in general of internationally operating SMEs should have a keen focus on information within the firm and on its use for and use in learning processes within the firm. Organizations such as the OECD but also national organizations that try to help SMEs in internationalizing should provide assistance in these management fields. Future research may be fruitful in widening and deepening the analysis presented in this study by analyzing more and diverse cases. Also in a more practical sense attention could be given to ways in which internationally operating SMEs can increase synergy. For instance, how can they successfully use scarce financial and management resources to establish their own outlets by means of a franchising system? I hope this study serves as a stimulus to such initiatives.
1. Introduction

In a rapidly globalizing world, business organizations increasingly operate on a global scale. In order to do so effectively they face the dilemma that, on the one hand, they have to operate globally whereas, on the other hand, they must be firmly rooted in local cultures, markets and power networks and also must accord to local laws. This dilemma has given rise to an extensive body of management literature and theory.

Much of the existing literature on the issue of globalization – localization deals, either implicitly or explicitly, with large, multi national organizations (MNOs). For multinationals, the global – local dilemma focuses on a specific field of management knowledge and management challenges, Human Resource Management (HRM). This is so because HRM concepts are generally of a universalist nature though based on North-American culture. MNOs generally have a strong corporate culture, either by intention (Mac Donalds is a strong example) or not. MNOs on the one hand feel the pressure to standardize HRM practices while on the other hand they must implement HRM practices in such a way that they can accommodate a multicultural workforce that operates in a wide variety of market and juridical conditions and power networks.

This study starts from a different perspective, that of small or medium-sized enterprises (SMEs). Little theory exists on the adaptation strategies selected and the reasons of doing so by internationally operating SMEs. This paucity of studies may well be related to the relative lack of resources that SMEs can devote to strategic advise. It may also be a general attitude, SMEs being reported to be rather reactive in their international expanding (Kalantaridis, 2004; OECD 1997). For big, multinational corporations, HRM strategies will be of interest because of the need to locally adapt their corporate culture. For smaller companies, however, this is not necessarily the case. How do these organizations experience the global – local dilemma and what is driving their strategy of internationalizing with respect to local adaptation? So the main research question in this study is:

"Which management challenges do internationally operating SMEs face in the globalization – localization dilemma?"

The methodology used in this study is that of grounded theory. ‘Grounded’ in this sense means that the theory will be grounded in the data. The data in this study mainly come from an Italian SME, Tekno Point, that is operating in four countries: Italy, Hungary, Romania and Slovakia. The company has been founded in Hungary about 1990. Products sold are climate regulation (both residential and professional), heating, ventilation, central vacuum cleaning and home automation. Branches in Italy and Romania started around the year 2000. The number of employees is about 50 (Hungary 35, Italy 10, Romania 5). The Slovakian market is served by an agreement with a Slovakian company. The owner and president of the company resides in Italy.

Typical for grounded theory is its approach to data collection and data analysis. In grounded theory the pattern is that, guided by some initial research questions, the researcher will collect a first set of data, preferably quite small. This set of data will be analyzed but after that the research is not completed. Instead, a repetitive sequence of data analysis and data collection stages begins which is only stopped at the point of theoretical saturation (which might be a theoretical endpoint only). The first stage was in May 2007, when the author visited the company for the first time, aimed at a first analysis of the company. During this visit discussions were held with most MT members of the firm and a MT session was organized on the strategy of the firm. From these it appeared that basic questions to the management of this particular internationalizing SME differ considerably from those for MNOs where the global – local dilemma focuses on Human Resource Management (HRM). Questions like “how to control?” and “how to coordinate?” seem to be far more urgent in case of an internationalizing SME. Based on that conclusion it was decided to start implementing a management and business information system.
The second stage was in October 2007. At that time the management and business information system was available. That made it possible to find out what the real management dilemmas are for this firm. From interviews with all MT members from each of the branches of the firm (Appendix I) and from two workshops it was found that the main management dilemmas for this SME focus on the fragmentation that results from internationalisation and on the consequent need to improve synergy within the company and to select optimum product-market strategies and channels that fit all branches. In March and May 2008 the ideas developed during the second visit and afterwards have been further discussed with the management of the company to further deepen the analysis.

Apparently, as SMEs internationalize (OECD, 1997), they will react differently from MNOs. Because of their smaller size, SMEs have less ‘weight’ with respect to cultural, juridical, economical influences of a new environment and they can also exert less control over the new environment. Therefore, they are forced to adapt to local circumstances. So their problem is not “should we adapt?” and even not “how to adapt to local conditions?” because adaptation is the only option available. They do adapt, one way or another depending on circumstances and the result is some kind of a conglomerate firm, though of still small size and with all further characteristics of a simple structure.

Management challenges for SMEs that are relevant when expanding internationally seem to be related to the contingency factors for SMEs. In Minzberg’s (1979) words, SMEs can be characterized as ‘simple structures’, an organization headed by one person who controls all of the operations. According to Mintzberg (1979) organizations possess certain organizational states or conditions which he calls ‘contingency factors’:

- Age and size of the organization.
- Technical systems it uses.
- Environment it faces.
- Power conditions.

Organizations select their design parameters (of which there are nine such as job specialization, unit grouping, unit size, planning and control systems) ideally on the basis of its four contingency factors.

In case of an internationalizing SME, the dilemma to its owner / director is that he has to run what has characteristics of a divisionalized firm with the resources of a simple structure. How can he manage and control this? But management and control are means, not goals in themselves. From the experience of Tekno Point it was clear that for a SME the management challenges resulting from the global – local dilemma did not focus on HRM issues such as is the case for MNOs. Instead there seemed to be some relationship between these challenges and contingency factors for SMEs. Therefore, the original research question was rephrased to:

1. "Which management challenges do internationally operating SMEs face? Is this HRM or are they related to contingency factors for SMEs such as a better planning and control process within the firm in order to have better control of the firm and to increase synergy within the firm, in the case of a commercial firm to select product-market combination(s) and a market approach that will fit best within the company?"
2. "Why this choice is made by SMEs, what is the logic of it and what can be the nature of the adaptation?"

Studying the above questions is not only relevant because they are of daily concern to director / owners of SMEs and because it will result in theory-building with respect to the issue of globalization – localization and how this influences management challenges and management choices in internationally operating SMEs is scarce. It is also relevant because SMEs are an important player in the field of internationalization and globalization. Organizations as the OECD and the EC, fully aware of the importance of SMEs with respect to employment and innovation, do have programs to support SMEs in their internalization efforts (e.g., Hassid, 2002 and OECD, 1997) and it is felt that such programs might benefit from a better foundation. We hope that the study may yield useful information for existing programs, such as those of the OECD, to support SMEs and their owners/directors and managers in their internalization efforts.
This thesis is organized as follows. After this introduction the theory and literature on the global – local dilemma is explored in Chapter 2. The methodology used is presented and discussed in Chapter 3. As pointed out in Chapter 3, there is a relationship between grounded theory and action research. This study is also an example of action research, in particular of action learning. That has some consequences for this thesis. It is in one sense an ordinary research report. In another sense it registers the process of learning on a particular issue in a particular company. This is particularly apparent in Chapter 4 where the results of this study are presented. Conclusions and discussion are presented in Chapter 5.
2. Literature

The problem of the kind of management challenges internationally operating SMEs face in the globalization – localization, can be seen as a particular example of a wider question: how in an increasingly global economy, business organizations adopt general management principles, systems, structures and instruments to conform to generally held norms of best practice? In studying this question, de Man & Yang (2005) note that these norms are claimed to be universal: there is a recognizable set of management problems for which universal solutions exist. The transformation of such universal management knowledge into living practice involves practices of localization. In order to understand how the (local) context influences the selective implementation of (universal) management knowledge, de Man & Yang (2005) postulate four different, though not mutually exclusive, approaches:

- Economic organization theories and contingency theories of organization;
- Power theories of organization;
- Institutional organization theories (or conceptions of ‘rational’ organization);
- Cultural approaches to organizations.

It is assumed that these four theories are not mutually exclusive but point at different mechanisms which simultaneously try to ‘pull’ organizations in different directions: make them more efficient, conform them to rational myths and general principals of ‘good’ organizing, adapt them to the political forces and interests of the actors involved and fit them to the existing culture. There is no a-priori dominance of any of these forces assumed. So in principle all management models are in need of local adaptation.

The contribution by de Man & Yang (2005) is part of a debate that has been started by the Dutch sociologist Hofstede and in which the question was raised why certain countries (such as Japan) have been so successful in contrast to other countries that started their development in the same time and with similar starting conditions. In order to answer this question, Hofstede (1980, 1997) postulates, we must turn to the domain of culture. A convenient way to study cultural differences is to position cultures along cultural dimensions. By interviewing a large sample of managers from all national divisions within a large and internationally operating company, IBM, four cultural dimensions were established: (1) power distance, (2) individualism versus collectivism, (3) masculinity versus femininity, and (4) uncertainty avoidance, a dimension related to man’s search for truth (Hofstede, 1980). In a later study Hofstede added a fifth dimension, long-term orientation. The implication of these results to internationally operating companies, whether large or small, is of course that their management should be very much aware of the contextual importance of the cultural factor.

There has been quite an extensive methodological debate about the studies by Hofstede, for instance a paper co-authored by Hofstede himself (Hofstede & Bond, 1998) in which the authors ask themselves the question if the culture of those who plan and design the survey influences the results? To answer this question Chinese social scientists prepared a list of basic values for Chinese people and a questionnaire on people’s preference of these values. The results of the survey confirmed the first three ‘IBM’ dimensions, but uncertainty avoidance did not show up. Instead, a new dimension was found, ‘Confucian dynamism’ which is related to perseverance, ordering relationships, personal stability, respect for tradition, etc. The authors conclude by making a comparison between Socrates (a philosopher of truth and typical of Western thinking, to be associated with the dimension of uncertainty avoidance) and Confucius (a practical philosopher, dealing with virtue while leaving the question of truth open). The study Hofstede & Bond (1998) does not put into doubt the dominant contextual influence of culture in itself. But the study does point to the need of the proper cultural dimensions in a given context.

A more fundamental critique of the work by Hofstede is given in the paper by Gerhart and Fang (2005). They ask themselves what the influence is of national cultures on HRM of internationally operating companies. In answering that question they present a critical re-examination of Hofstede’s IBM study in which they focus on the effects of sample size rather
than on statistical significance (as the original work by Hofstede did). They find that, although statistical tests yielded highly significant between-country differences, these differences were very small in relation to the within-country differences. By re-examining data used in Hofstede et al. (1990) from twenty organizations in ten countries, they arrive at the conclusion that between-country are smaller than between-organization differences. In conclusion, Gerhart & Fang (2005) suggest a much smaller role for cultural country differences than suggested in previous literature. Instead they underline the need for increased management attention on factors such as differences in the centrality of markets, institutions, regulations, collective bargaining and labor-force characteristics.

This broader view on Human Resource Management (HRM) and how it is influenced by contextual factors, is summarized in de Man & Yang (2005). According to them, contextual influences on HRM, as a special type of management model, are:
1. efficiency problems are emphasized by ‘hard HRM’ which contributes to the competitive power of the enterprise by the full utilization of human resources;
2. the influence of institutionalized conceptions of good personnel management provides an explanation for the selective introduction of HRM concepts;
3. local power relations define the actual implementation of HRM practices;
4. the cultural context can explain the way these concepts and instruments are implemented, resisted or transformed.

This is supported by an extensive body of literature (e.g., Aycan (2005), Aycan et. (1999), Budhwar and Khatri (2001), He (2004), Law et al. (2004) and Shen (2005)), in which aspects of HRM are related to cultural dimensions and institutional / organizational / structural factors. Aycan (2005) gives a very detailed tabular overview of such relations. One of the overall conclusions of Aycan (2005) is of relevance to my present study: particularly in small organizations operating in the service industry and owned by families, the impact of culture on HRM is evident. In the paper by Aycan et al. (1999) the Model of Cultural Fit is presented. According to this model, organizations are influenced by:

- Internal environment, represented by its work culture;
- External environment:
  - Enterprise environment (e.g., market characteristics, nature of industry, ownership status, resource availability);
  - Socio-cultural environment (e.g., paternalism, and cultural dimensions of Hofstede).

Budhwar & Khatri (2001) use a framework of three levels of factors and variables that are known to influence HRM policies and practices:
1. National factors such as national culture, national institutions, business sectors and dynamic business environment;
2. Contingent variables (such as age, size, nature, ownership, life cycle stage, presence of trade unions and stakeholder interests);
3. Organizational strategies.

This framework is comparable to that used by Aycan et al. (1999). They test five main models of HRM: the strategic fit model, the 5-P model (strategic integration), the Harvard model (the soft variant of HRM which highlights the interests of different stakeholders and it also recognizes the influence of situational factors), the contextual model (stressing the linkages between the outer environmental context and inner organizational context) and the European model of HRM. Based on a sample of 137 questionnaires in Indian firms they find that the majority of HR efforts in Indian organizations is detached from the overall organizational efforts and still plays the traditional role of control and administration (Note that India thus could be seen as an example of the relevance of the power approach, reported in De Man and Yang, 2005).

The paper by Law et al. (2004) deals with the extent to which jobs originally held by expatriate managers are filled by local employees who are competent to perform these jobs. This problem is of relevance as failures of expatriate managers are frequent and costly, both in terms of money and in psychological impacts. From a resource-based point of view, firms
need to localize expatriate positions so that local managers could be developed as long-term strategic resources of the firm. This, however, occurs naturally in SMEs.

Shen (2005) develops a generic International Human Resources Management (IHRM) model. Starting point is the 'best fit' approach: effective IHRM policies and practices combine coordination, responsiveness and organizational learning. In order to do so, MNOs need to consider various intervening factors in IHRM. He arrives at 13 intervening factors that affect an MNOs IHRM. These factors plus an additional one, economic ownership type are categorized into firm-specific factors and contextual factors (political, legal, economic and socio-cultural factors). The contextual factors, however, will always be perceived through the eyes of the home IHRM system of the MNO. Therefore, the IHRM policies and practices of a are the interaction of the home HRM system, firm-specific factors and host-contextual factors. Based on data of 10 Chinese MNOs with between 800 and 80.000 employees worldwide and including state-owned (7) and share-holding enterprises (3) he establishes the impact of each of the intervening factors on IHRM policies and practices such as training (strong effects of socio-cultural and reliance on international markets), reward and compensation (strong effects of economic and socio-cultural factors and of reliance on international markets).

He (2004) studies the implementation of Enterprise Resource Planning (ERP) from a resource-based view. ERP is multi-module application software company to manage its business with potential benefits of improved process flow, reduced inventories, better data analysis, better customer service and improved profit margins. Critical Success Factors in the implementation of ERP are reported from earlier studies. Most of them are firm-specific, except change management & (organization and national) culture. He finds that for Chinese enterprises most of these Critical Success Factors are consistent with the mainstream ERP literature, except for two which are China-specific: a vision on ERP that is consistent with Supply Chain Management (a critical objective in the present state of transformation of China’s economy) and a concept of ERP that promotes via ERP implementation. This paper stands somewhat apart from the other literature in the senses that it is not specific focused on HRM and that the cultural factors relate more to socio-cultural and economic context variables than to culture as defined by Hofstede.

Chew & Horwitz (2004) conclude in their study of MNOs operating in Singapore that most of the MNOs studied have a coherent set of HRM interventions derived from their (global) organizational strategy and that the use of globally diffused HR strategies and particular HR systems create and reinforce a strong and differentiated corporate culture and core values, even where the host-country culture may differ. Although not mentioned by the authors the findings of this study might be influenced by the fact that Singapore is a small and modern country with an open culture as witnessed by the recent adoption of English as official language. It is also important to note that the HRM practices considered in this paper focuss on HRM practices with respect to managerial staffing and development.

In conclusions, all of these studies underline the relationship of HRM to both cultural dimensions and more general (socio-economic, market, etc.) external conditions and to organizational / structural factors.

A fundamentally different perspective on HRM and the global-local dilemma is taken by Paauwe and Boselie. We present it here because their fundamental assumption is the preponderance of the globalization development. In this development, all organizations will tend to become similar, thus giving few importance to local contextual influences. The main management challenge in their view is to reach that ideal universal organizational state before competitors do. I do not think that this is a fruitful approach for SMEs. Nevertheless it is a very interesting contribution, both in itself and for large and multinationally operating firms in particular. That is the reason why it is mentioned here.

In their paper Paauwe and Boselie (2003) they state that the resource-based view (RBV) has become the dominant theory in the debate on Strategic HRM. In this view the emphasis is on gaining sustainable competitive advantage by means of efficient and effective utilisation of resources. There is, however, criticism of RBV: the 'black box' dilemma (resources are referred to as being useful without specific attention when, where and how they may be useful), the static nature of RBV (circumstances may differ in time and place), and RBV often neglects the social context. The authors use the theory of new
Institutionalism to clarify the adjustment of HR policies and practices to new settings. The new institutionalists claim that rational actors make their organisations increasingly similar as they try to change them. This process of homogenisation is the result of three mechanisms: coercive mechanisms (resulting from political and legal influences), mimetic mechanisms (imitations to strategies and practices of competitors as a result of uncertainty) and normative mechanisms through education, professional networks, etc. All three mechanisms influence HRM strategies and policies and goals, resulting in an increased homogeneity of HRM. The implication for practitioners is that there is an important time effect in implementing new HRM practices. The impact of implementing a new trend for newcomers will be totally different for the latecomers than for the early adopters.

In their 2005 paper, Paauwe and Boselie elaborate on this theme, based on two streams of theoretical thinking: new institutionalism (see above) and strategic management. Strategic management was dominated in the 80’s by outside-in approaches (the key to success is strategic fit, that is, the fit between the strategy of an organization and the external environment). As a reaction the 90’s showed the emergence of the resource-based, inside-out theories. Based on new institutionalism and co-evolution theory the authors want to blend the inside-out and outside-in approaches. Co-evolution theory focuses on how firms co-evolve with each other and with a changing organizational environment. A model of adoption of innovations is developed consisting of the following adopter categories: innovators, early adopters, early majority (deliberate), late majority (sceptical) and laggards (traditional). This again leads to the conclusion that the impact of implementing a new trend for newcomers will be totally different for the latecomers than for the early adopters. I do not consider the theory by Paauwe and Boselie relevant to this study. Of course, the newcomer/latecomer issue is of general importance but it is not restricted to HRM. In general, SMEs are in certain aspects (markets and/or products) pioneers by themselves. The homogenisation issue is more related to large organizations as small organizations are opportunistic by nature adapting rapidly and taking chances.

An almost opposite position is taken by Whitley (2000) in a parallel scientific discourse. He emphasizes the national context of the global – local dilemma rather than the context of internationally operating business. He developed the notion of national business systems in which firms are organized in various though specific ways and operate in specificly organized and functioning markets. These business systems evolve but not necessarily converge. By integrating institutionalist approaches to organizations with the capabilities theory of the firm, Whitley shows how it is possible to understand the combination of diversity and integration. Distinctive business systems and innovation systems have established in many OECD states during the postwar period and were reproduced and changed affected by various endogenous and exogenous pressures. Dominant firms developed organizational capabilities that enabled them to deal with different kinds of risks and opportunities in particular technologies and markets. As multinational firms are not likely to develop organizational capabilities for cross national managerial coordination, the extent to which multinational firms do indeed constitute distinct organizational forms and strategic actors is much less than is sometimes claimed.

As concluded by Aycan (2005) and referred to above, the impact of culture on HRM is seen particularly in internationally operating SMEs. For instance, modern HRM techniques such as 360° feedback are not readily to be encountered in the Indian branch of an internationally operating SME whereas the opposite may be true for the Indian division of a MNO. This, however, does certainly not imply that the cultural context and its impact on HRM is an important management issue in internationally operating SMEs. In fact, little theory exists on the adaptation strategies selected and the reasons of doing so by internationally operating SMEs. The paucity of studies may well be related to the relative lack of resources of SMEs that can be devoted to strategic advise. Further, it may not only be a matter of relatively scarce resources but also a general attitude, SMEs being reported to be rather reactive in their international expanding because an adversity to risks based on the limited financial possibilities of SMEs (Kalantaridis, 2004; OECD 1997).

Some indications of the management choices that do matter for internationally operating SMEs nevertheless can be found in the literature. As deduced in Chapter 1, both effective control as well as the selection of product-market combination(s) and a market approach that will enable optimal synergy are of particular management concern in this case. Some of the scattered literature on the global – local dilemma for internationally operating SMEs does indeed refer to the problem of adequately identifying and serving markets. Pietrobelli & Sverrison (2004) and Chen & Huang (2004) present some case studies on this. Chen and Huang point to the necessity for effective market approaches given the global marketplace that becomes ever competitive. Strategic market alliances, e.g. by upstream-downstream industry organization
or by horizontal alliances with companies in the same industry, can be a solution to that problem.

The lack of a institutionalized planning and control system as a specific difficulty for internationally operating SMEs is mentioned by Fujita (1998) and Boter & Holmquist (1997). They also point to the limited financial and managerial resources that will result in an internationalization approach that is often prudent and 'step-by-step'. So learning and learning processes are of key importance in the case of internationalizing SMEs (Mair & Thurner, 2005). Fujita (1998) also pays attention to the problem of language differences for internationalizing SMEs.
3. Methodology

The methodology used in this study is that of grounded theory. Here a brief description of grounded theory is presented, based on Punch (2005). ‘Grounded’ in this sense means that the theory will be grounded in the data. The data in this study mainly come from an Italian SME, Tekno Point, that is operating in four countries (see box). Grounded theory is probably the most widely employed interpretative strategy in the social sciences today (Punch, 2005). The first description of grounded theory can be found in The discovery of grounded theory (Glaser and Strauss, 1967). They initially presented it as a method for the analysis of qualitative data and the method indeed has long been associated with qualitative research. However, it is equally applicable to quantitative research.

Tekno Point is an Italian trade firm in electronic equipment. Its mission is: ‘professional supplier of comfort technology’. That points to two characteristics of the firm:
1. Products sold are climate regulation (both residential and professional), heating, ventilation, central vacuum cleaning and home automation.
2. The firm works through professionals, the installers. So the firm sees itself as an intermediary between factories and installing firms.
There is a connection between the products sold and this vision as an intermediary. The products sold should be of interest to the installer: what do they want to install?

Markets are Italy, Hungary, Romania and Slovakia. In each of these countries except Slovakia a sales organization is present. Slovakia is served by the Budapest office. Sales are realized through various (overlapping) sales channels:
- In Italy through multi-firm agents that serve either installers or TPS shops (30) that sell to direct clients (domestic, individual).
- In Hungary through mono-firm agents that serve installers and retailers that sell to direct clients (domestic, individual). Three other sales channels also are present in Hungary:
  - Mono-firm agents and the comm. manager that serve Do it yourself shops to direct clients (domestic, individual)
  - Product managers and mono-firm agents that serve projects to direct clients (projects)
  - Office to TPS (5 +) to direct clients (domestic, individual).
- In Romania mono-firm agents that serve supermarkets, local distributors and Do it yourself shops that all three sell to direct clients (domestic, individual); the office sells to projects and to direct clients (domestic, individual).

The company started in Hungary in about 1990 as a firm selling electrical equipment. This is a market, however with very low margins and strong competition, whence the company changed its profile to that of ‘professional supplier of comfort technology’. The Slovakian market is served by an agreement with a Slovakian company. Branches in Italy and Romania started around the year 2000. The organization in Hungary, indeed, is more mature and professional than the Italian and Romanian branches. The number of employees is about 50 (Hungary 35, Italy 10, Romania 5).

The owner and president of the company resides in Italy and operates from the Italian branch. Synergy mainly comes from joint buying and import of Chinese equipment that are labelled as Tekno Point machines. Also technical support and accountancy is mainly organised through the Italian branch.

At present, grounded theory is a well-developed research strategy in the social sciences. In grounded theory the research does not start with a theory from which it deduces hypotheses for testing. It starts with an open mind, aiming to end up with a theory. In practice however, as Punch (2005) underlines, the distinction between theory generation and verification is not so sharp. Also theory generation depends on progressive verification as well. Typical for grounded theory is its approach to data collection and data analysis. In the traditional view of research, data collection is a discrete stage in the research, to be completed before data
analysis begins. In grounded theory the pattern is different. Guided by some initial research questions, the researcher will collect a first set of data, preferably quite small. This set of data will be analyzed but after that the research is not completed. Instead, a repetitive sequence of data analysis and data collection stages begins which is only stopped at the point of theoretical saturation (which might be a theoretical endpoint only).

Who are the objects of analysis and to whom the data collection is directed? As this is a study on management dilemmas and choices, management was perceived as the main object. Their views as well as general management information that should guide strategic management choices were seen as the main object of data collection. So interviews, discussions and workshops were held with management. In fact, all managers within the firm have been interviewed and several MT discussions were held. During the first action research cycle in this study, in May 2007, when the author visited the company for the first time, it was found that there was a lack of data on the day-to-day operation as well as Planning & Control data. This made it difficult for the management to identify the real, underlying problems (and solutions to these problems). The decision was taken to implement weekly reporting systems of sales and costs in the main branches (Italy and Hungary) to be used to direct sales efforts and coach and manage the sales agents. Partly these reporting systems were available but they were fragmented (making it impossible to have a general view on the firms profitability and stocks, the latter being important as products were bought in China by the Italian branch), partial (concentrating on sales rather than costs) and available at a too late time (making it impossible to use the data for directing and coaching the agents). This information system was in place in October 2007.

The second research cycle in this study, in October 2007, aimed at identifying the underlying management dilemmas for the firm resulting from internationalization. These appeared to be the need to improve synergy within the company and – being a trading company – to select optimum product-market strategies. In order to better identify these dilemmas and to find possible solutions, interviews were held in October 2007 with managers from each of the branches of the firm and with the owner / director. The interviews were followed by workshops in which problems and possible solutions as identified in the interviews were further discussed. The interviews were very open and care was taken not to arrive prematurely at the conclusion that contingency factors and not HRM would be the main management dilemma for this SME. A set of trigger questions developed at the Institute of Future (see van der Heijden et al., 2002) were used that included the four driving factors discerned by de Man & Yang (2005) with respect to local adaptation: efficiency, views on ‘good organizing’, power games within the organization or the larger context (cultural, juridical, …) of the organization. A further set of questions related specifically to HRM was added, as was one additional question about the market approach asking for which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?

In a third research cycle, in March and May 2008, the ideas developed during the second visit and afterwards, were discussed with the management of the company, resulting in further deepening of the various ideas.

This study is in a sense also an example of action research. From a methodological point of view, the two – grounded theory and action research – have in common the repetition of research sequences (data collection – analysis stages and research spirals, respectively). Also what evolved from this particular study for this particular SME points to the relation with action research: information (the management information system), choices (on the need to create synergy) and thus learning and action. Changes have been planned within the SME studied and the consequences of changes have been observed and reflected on after which a new action research spiral followed (Punch, 2005). Like grounded theory, also action research has developed into a broad class of research strategies within the social sciences. Ellis & Kiely (2000) present a classification of action research into four different classes. Although the classes overlap and the classification is to meant to give precise and unambiguous distinctions, the present study with its focus on work-related problems, experiential learning and its strive towards effectiveness and organisational improvement, fits best into the “action learning” strategy. The role of the present author in this learning process, however, was more that of a
mediator who triggers the learning process and focuses the attention to learning results than that of a peer.

To study one case only can pose limitations to the conclusions of the study. However, with a sufficiently broad study design such a study can yield illuminating results. Conditions to be fulfilled are then (Verschuren, 2003) amongst others, the observations of patterns and structures instead of measurement of variables, a strategically chosen case, concentration on the interface of object and environment instead of on the object as such, an iterative instead of a linear approach and a comparative analysis instead of a statistical one. This study concentrated on the interface of the SME with its environment, the various countries and markets it operates in, rather than concentrating on the SME itself. This interface has been observed not by gathering quantitative or qualitative data (e.g., on sales or HRM techniques used) to be analyzed but by observing management dilemmas and choices. Also an iterative approach is used, starting with an 'reconnaissance' visit, followed by two visits in which through literature study, interviews, workshops and various conversations the analysis developed itself.

This study is not an example of narrative research in the sense that the report is not an interpretation of stories (Cunliffe et al., 2004). Although interviews and workshops have been very important in the study, the data for this study are more than the manager's stories. The data also include all kinds of existing theory and literature, quantitative data on the performance of the SME analyzed and general information on a variety of subjects.

Special attention needs to be given to the question whether Tekno Point is a strategic chosen case, as demanded by Verschuren (2003)? The firm certainly is strategic in the sense that it is internationally operating in countries that are of interest (new East-European markets) and that it is a SME with all the characteristics of growth, expansion, difficulties of control by the director, etc. However, as a trading company it encompasses one end of the spectrum of trading – production firms. Without going in detail it is postulated here that for trading companies such as Tekno Point the global – local dilemma presents itself at the level of product – market mixes and sales strategies rather than at the level of quality control, which will be far more relevant for production firms. The second challenge that internationally operating SMEs face in front of the global – local dilemma, viz. the need for control and synergy, is the same for both types of firms.
4. Results

4.1. The countries Tekno Point operates in

Table 4.1 gives some general data on the four countries Tekno Point operates in. Note: all data in this table and in this Chapter as a whole have as a base 2007 unless otherwise indicated.

Table 4.1. General data on Hungary, Italy, Romania and Slovakia.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Hungary</th>
<th>Italy</th>
<th>Romania</th>
<th>Slovakia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total area (sq km)</td>
<td>93,030</td>
<td>301,230</td>
<td>237,500</td>
<td>48,845</td>
</tr>
<tr>
<td>Population in July 2007</td>
<td>9,956,108</td>
<td>58,147,733</td>
<td>22,276,056</td>
<td>5,447,502</td>
</tr>
<tr>
<td>Age structure (%):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-14</td>
<td>15.3</td>
<td>13.8</td>
<td>15.6</td>
<td>16.4</td>
</tr>
<tr>
<td>15-64</td>
<td>69.3</td>
<td>66.4</td>
<td>69.6</td>
<td>71.5</td>
</tr>
<tr>
<td>&gt;65</td>
<td>15.4</td>
<td>19.9</td>
<td>14.7</td>
<td>12.2</td>
</tr>
<tr>
<td>Median age (years)</td>
<td>38.9</td>
<td>42.5</td>
<td>36.9</td>
<td>36.1</td>
</tr>
<tr>
<td>Population growth (%; 2007)</td>
<td>-0.25%</td>
<td>0.01%</td>
<td>-0.13</td>
<td>0.15</td>
</tr>
<tr>
<td>Ethnic groups (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hung.: 92.3</td>
<td>Appr. all Hungarian: 89.5</td>
<td>Italian: 6.6</td>
<td>66.2</td>
<td>85.8</td>
</tr>
<tr>
<td>Roma: 1.9</td>
<td></td>
<td>7.5</td>
<td>6.6</td>
<td>9.7</td>
</tr>
<tr>
<td>Other: 5.8 (2001)</td>
<td></td>
<td>10.6</td>
<td>2.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Other: 1.4</td>
<td></td>
<td>1.4</td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Religions (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RC: 51.9</td>
<td>RC: 90</td>
<td>EO: 86.8</td>
<td>RC: 68.9</td>
<td></td>
</tr>
<tr>
<td>Calv.: 15.9</td>
<td>Other (prot, Jewish and Muslim): 10</td>
<td>Prot.: 7.5</td>
<td>Prot.: 10.8</td>
<td></td>
</tr>
<tr>
<td>Luth.: 3</td>
<td></td>
<td>RC: 4.7</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>EO: 2.6</td>
<td></td>
<td>Other: 1.0</td>
<td>None: 13.0</td>
<td></td>
</tr>
<tr>
<td>None: 14.5</td>
<td></td>
<td>1.0</td>
<td>13.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Other: 12.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Languages (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hung.: 93.6</td>
<td>Italian official Language: 91</td>
<td>Hungarian: 6.7</td>
<td>9.1</td>
<td>83.9</td>
</tr>
<tr>
<td>Other: 6.4</td>
<td></td>
<td>Other: 2.3</td>
<td>6.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Other: 2.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (purchasing power parity)</td>
<td>194</td>
<td>1,800</td>
<td>247</td>
<td>107.6</td>
</tr>
<tr>
<td>(billion $)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP per capita ($)</td>
<td>19,500</td>
<td>31,000</td>
<td>11,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Unemployment rate (%; 2007)</td>
<td>7.1</td>
<td>6.7</td>
<td>4.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Inflation rate (%; 2007)</td>
<td>7.8</td>
<td>1.7</td>
<td>4.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Currency</td>
<td>Forint</td>
<td>Euro</td>
<td>Lei</td>
<td>Koruna</td>
</tr>
</tbody>
</table>

Below a short overview of the four countries is given in terms of the socio-political, economical and cultural factors given in the paper by Aycan et al. (1999): their political, socio-economical, juridical and cultural domains. Note that these factors cover the complete external environment to a company such as Tekno Point with the exception of market characteristics and competition within that market. These will be dealt with in Chapter 4.3.

4.1.1. Political developments

Hungary was part of the polyglot Austro-Hungarian Empire, which collapsed during World War I. The country fell under Communist rule following World War II. In 1956, a revolt and an announced withdrawal from the Warsaw Pact were met with a massive military intervention by Moscow. Under the leadership of Janos KADAR in 1968, Hungary began liberalizing its economy, introducing so-called "Goulash Communism." Hungary held its first multiparty elections in 1990 and initiated a free market economy. It joined NATO in 1999 and the EU in 2004.
Hungary is a parliamentary democracy. Chief of state is Laszlo SOLYOM (since 5 August 2005) and Head of government is prime minister Ferenc GYURCSANY (since 29 September 2004). The president is elected by the National Assembly for a five-year term (eligible for a second term). This election was last held on 6-7 June 2005 (next to be held by June 2010). The prime minister is elected by the National Assembly on the recommendation of the president. This election was last held 29 September 2004.

Italy became a nation-state in 1861 when the regional states of the peninsula, along with Sardinia and Sicily, were united under King Victor EMANUEL II. An era of parliamentary government came to a close in the early 1920s when Benito MUSSOLINI established a Fascist dictatorship. His alliance with Nazi Germany led to Italy's defeat in World War II. A democratic republic replaced the monarchy in 1946 and economic revival followed. Italy was a charter member of NATO and the European Economic Community (EEC). It has been at the forefront of European economic and political unification, joining the Economic and Monetary Union in 1999. Persistent problems include illegal immigration, organized crime, corruption, high unemployment, sluggish economic growth, and the low incomes and technical standards of southern Italy compared with the prosperous north.

Italy is a parliamentary democracy. Chief of state is President Giorgio NAPOLITANO (since 15 May 2006). Head of government is prime minister (referred to in Italy as the president of the Council of Ministers) Romano PRODI (since 17 May 2006). The president is elected by an electoral college consisting of both houses of parliament and 58 regional representatives for a seven-year term (no term limits). This election was last held on 10 May 2006 (next to be held this year because the parliament start 2008). The prime minister is appointed by the president and confirmed by parliament.

The principalities of Wallachia and Moldavia - for centuries under the suzerainty of the Turkish Ottoman Empire - secured their autonomy in 1856; they united in 1859 and a few years later adopted the new name of **Romania**. The country gained recognition of its independence in 1878. It joined the Allied Powers in World War I and acquired new territories - most notably Transylvania - following the conflict. In 1940, Romania allied with the Axis powers and participated in the 1941 German invasion of the USSR. Three years later, overrun by the Soviets, Romania signed an armistice. The post-war Soviet occupation led to the formation of a Communist "people's republic" in 1947 and the abdication of the king. The decades-long rule of dictator Nicolae CEAUSESCU, who took power in 1965, and his Securitate police state became increasingly oppressive and draconian through the 1980s. CEAUSESCU was overthrown and executed in late 1989. Former Communists dominated the government until 1996 when they were swept from power. Romania joined NATO in 2004 and the EU in 2007.

Romania is a parliamentary democracy. Chief of state is President Traian BASESCU (since 20 December 2004). He was suspended by vote of parliament on 19 April 2007, but resumed his duties on 23 May 2007 after a popular referendum confirmed that his impeachment should not stand. Head of government is prime minister Calin Popescu-TARICEANU (since 29 December 2004). The president is elected by popular vote for a five-year term (eligible for a second term). This election was last held on 28 November 2004 with runoff between the top two candidates held 12 December 2004 (next to be held in November-December 2009). The prime minister is appointed by the president with the consent of the Parliament.

The dissolution of the Austro-Hungarian Empire at the close of World War I allowed the Slovaks to join the closely related Czechs to form Czechoslovakia. Following the chaos of World War II, Czechoslovakia became a Communist nation within Soviet-ruled Eastern Europe. Soviet influence collapsed in 1989 and Czechoslovakia once more became free. The Slovaks and the Czechs agreed to separate peacefully on 1 January 1993. **Slovakia** joined both NATO and the EU in the spring of 2004.

Slovakia is a parliamentary democracy. Chief of state is President Ivan GASPAROVIC (since 15 June 2004). Head of government is prime minister Robert FICO (since 4 July 2006). The president is elected by popular vote for a five-year term (eligible for a second term). This election was last held on 3 April and 17 April 2004 (next to be held in April 2009).
4.1.2. Socio-economic developments

Hungary has made the transition from a centrally planned to a market economy, with a per capita income nearly two-thirds that of the EU-25 average. The private sector accounts for over 80% of GDP. Foreign ownership of and investment in Hungarian firms are widespread, with cumulative foreign direct investment totalling more than $60 billion since 1989. Hungary issues investment-grade sovereign debt. International observers, however, have expressed concerns over Hungary's fiscal and current account deficits. In 2007, Hungary eliminated a trade deficit that had persisted for several years. Inflation declined from 14% in 1998 to a low of 3.7% in 2006, but jumped to 7.8% in 2007. Unemployment has persisted above 6%. Hungary's labour force participation rate of 57% is one of the lowest in the Organization for Economic Cooperation and Development (OECD). Germany is by far Hungary’s largest economic partner. Policy challenges include cutting the public sector deficit to 4% of GDP by 2008, from about 6% in 2007. The government's austerity program of tax hikes and subsidy cuts has reduced Hungary’s large budget deficit, but the reforms have dampened domestic consumption, slowing GDP growth to less than 2% in 2007. The government will need to pass additional reforms to ensure the long-term stability of public finances. The government plans to eventually lower its public sector deficit to below 3% of GDP to adopt the euro.

Natural resources are bauxite, coal, natural gas, fertile soils and arable land (49.6%). The composition by sector of the GDP is: agriculture (3.3%), industry (32.4%), services (64.2%). Main industrial activities are: mining, oil, natural gas, metallurgy, construction materials, processed foods, textiles, chemicals (especially pharmaceuticals), motor vehicles. Main export commodities are: machinery and equipment (61.1%), other manufactures (28.7%), food products (6.5%), raw materials (2%), fuels and electricity (1.6%) (2003). Exports partners are Germany (29.5%), Italy (5.6%), France (5%), Austria (5%), UK (4.5%), Romania (4.2%) and Poland 4.1% (2006). Import partners are: Germany (27.1%), Russia (8.2%), China (6.9%), Austria (6.2%), France (4.7%), Italy (4.6%), Netherlands (4.3%) and Poland (4.3%) (2006).

Italy has a diversified industrial economy with roughly the same total and per capita output as France and the UK. This capitalistic economy remains divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with 20% unemployment. Most raw materials needed by industry and more than 75% of energy requirements are imported. Over the past decade, Italy has pursued a tight fiscal policy in order to meet the requirements of the Economic and Monetary Unions and has benefited from lower interest and inflation rates. The current government has enacted numerous short-term reforms aimed at improving competitiveness and long-term growth. Italy has moved slowly, however, on implementing needed structural reforms, such as lightening the high tax burden and overhauling Italy's rigid labour market and over-generous pension system, because of the current economic slowdown and opposition from labour unions. But the leadership faces a severe economic constraint: Italy's official debt remains above 100% of GDP, and the government has found it difficult to bring the budget deficit down to a level that would allow a rapid decrease in that debt. The economy continues to grow by less than the euro-zone average and growth is expected to decelerate from 1.9% in 2006 and 2007 to under 1.5% in 2008 as the euro-zone and world economies slow.

Natural resources are coal, mercury, zinc, potash, marble, barite, asbestos, pumice, fluorspar, feldspar, pyrite (sulphur), natural gas and oil reserves and arable land (26.4%). The composition by sector of the GDP is: agriculture (1.9%), industry (28.8%) and services (69.3%). Main activities are tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear and ceramics. Exports commodities are engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals, food, beverages, tobacco, minerals and nonferrous metals. Export partners are Germany (13.2%), France (11.7%), US (7.6%), Spain (7.3%) and the UK (6.1%) (2006). Main import partners are Germany (16.7%), France (9.2%), Netherlands (5.6%), China (5.2%), Belgium (4.2%) and Spain (4.1%) (2006).
Romania, which joined the European Union on 1 January 2007, began the transition from Communism in 1989 with a largely obsolete industrial base and a pattern of output unsuited to the country's needs. The country emerged in 2000 from a punishing three-year recession thanks to strong demand in EU export markets. Domestic consumption and investment have fuelled strong GDP growth in recent years, but have led to large current account imbalances. Romania's macroeconomic gains have only recently started to spur creation of a middle class and address Romania's widespread poverty. Corruption and red tape continue to handicap its business environment.

Natural resources are petroleum (reserves declining), timber, natural gas, coal, iron ore, salt, arable land (39.5%) and hydropower. The composition by sector of the GDP is: agriculture (7.9%), industry (35.6%) and services (56.5%). Main industrial activities are textiles and footwear, light machinery and auto assembly, mining, timber, construction materials, metallurgy, chemicals, food processing and petroleum refining. Export commodities are textiles and footwear, metals and metal products, machinery and equipment, minerals and fuels, chemicals and agricultural products. Main export partners are Italy (17.9%), Germany (15.7%), Turkey (7.7%), France (7.5%), Hungary (4.9%) and the UK (4.7%) (2006). Import partners are Germany (15.2%), Italy (14.5%), Russia (7.8%), France (6.5%), Turkey (4.9%) and China (4.3%) (2006).

Slovakia has mastered much of the difficult transition from a centrally planned economy to a modern market economy. The DZURINDA government made excellent progress during the period 2001-2004 in macroeconomic stabilization and structural reform. Major privatizations are nearly complete, the banking sector is almost completely in foreign hands, and the government has helped facilitate a foreign investment boom with business friendly policies such as labour market liberalization and a 19% flat tax. Foreign investment in the automotive sector has been strong. Slovakia’s economic growth exceeded expectations in 2001-07 despite the general European slowdown. Unemployment, at an unacceptable 18% in 2003-04, dropped to 8.6% in 2007 but remains the economy's Achilles heel. Slovakia joined the EU on 1 May 2004 and will be the second of the new EU member states to adopt the euro in 2009 if it continues to meet euro adoption criteria in 2008. Despite its 2006 pre-election promises to loosen fiscal policy and reverse the previous DZURINDA government’s pro-market reforms, FICO’s cabinet has thus far been careful to keep a lid on spending in order to meet euro adoption criteria. The FICO government is pursuing a state-interventionist economic policy, however, and has pushed to regulate energy and food prices.

Natural resources are brown coal and lignite, small amounts of iron ore, copper and manganese ore, salt and arable land (29.2%). The composition by sector of the GDP is: agriculture (3.4%), industry (32.8%) and services (63.8%). Main industrial activities are metal and metal products, food and beverages, electricity, gas, coke, oil, nuclear fuel, chemicals and manmade fibres, machinery, paper and printing, earthenware and ceramics, transport vehicles, textiles, electrical and optical apparatus and rubber products. Export commodities are vehicles (25.9%), machinery and electrical equipment (21.3%), base metals (14.6%), chemicals and minerals (10.1%) and plastics (5.4%) (2004). Main export partners are Germany (23.7%), Czech Republic (14.1%), Italy (6.5%), Poland (6.2%), Austria (6%), Hungary (5.8%), France (4.3%) and Netherlands (4.2%) (2006). Import partners are Germany (23.6%), Czech Republic (18.2%), Russia (11%), Hungary (6%), Austria (5.5%), Poland (4.9%) and Italy (4.4%) (2006).

4.1.3. Legal aspects

Given the diverse history of the four countries, their legislative system and philosophy shows great divergences. However, in the present study it suffices to note that the relevant commercial and labor legislation is rapidly homogenized according to European standards. Italy already has completed this process and from a practical point of view the same holds for Hungary and Slovakia. In Romania this is certainly not so; the main effects of these are economic risks (few protection to bad creditors) and much bureaucracy.

4.1.4. Cultural aspects
During 1978-83, the Dutch cultural anthropologist Geert Hofstede conducted detailed interviews with hundreds of IBM employees in 53 countries. Through standard statistical analysis of large data sets, he was able to determine patterns of similarities and differences among the replies. From this data analysis, he formulated his theory that cultures vary along consistent, fundamental dimensions. His focus was not on defining culture as refinement of the mind (or "highly civilized" attitudes and behaviour) but rather on highlighting essential patterns of thinking, feeling, and acting that are well-established by late childhood. These cultural differences manifest themselves in a culture's choices of symbols, heroes/heroines, rituals, and values.

Hofstede identified five dimensions and rated 53 countries on indices for each dimension, normalized to values (usually) of 0 to 100 (e.g., Hofstede, 1997). His five dimensions of culture are the following:

- Power-distance
- Collectivism vs. individualism
- Femininity vs. masculinity
- Uncertainty avoidance
- Long-term vs. short-term orientation

Power distance focuses on the degree of equality, or inequality, between people in the country's society. A high Power Distance ranking indicates that inequalities of power and wealth have been allowed to grow within the society. These societies are more likely to follow a caste system that does not allow significant upward mobility of its citizens. A low Power Distance ranking indicates the society de-emphasizes the differences between citizen's power and wealth. In these societies equality and opportunity for everyone is stressed.

Individualism focuses on the degree the society reinforces individual or collective achievement and interpersonal relationships. A high Individualism ranking indicates that individuality and individual rights are paramount within the society. Individuals in these societies may tend to form a larger number of looser relationships. A low Individualism ranking typifies societies of a more collectivist nature with close ties between individuals. These cultures reinforce extended families and collectives where everyone takes responsibility for fellow members of their group.

Masculinity focuses on the degree the society reinforces, or does not reinforce, the traditional masculine work role model of male achievement, control, and power. A high Masculinity ranking indicates the country experiences a high degree of gender differentiation. In these cultures, males dominate a significant portion of the society and power structure, with females being controlled by male domination. A low Masculinity ranking indicates the country has a low level of differentiation and discrimination between genders. In these cultures, females are treated equally to males in all aspects of the society.

Uncertainty Avoidance Index focuses on the level of tolerance for uncertainty and ambiguity within the society - i.e. unstructured situations. A high Uncertainty Avoidance ranking indicates the country has a low tolerance for uncertainty and ambiguity. This creates a rule-oriented society that institutes laws, rules, regulations, and controls in order to reduce the amount of uncertainty. A low Uncertainty Avoidance ranking indicates the country has less concern about ambiguity and uncertainty and has more tolerance for a variety of opinions. This is reflected in a society that is less rule-oriented, more readily accepts change, and takes more and greater risks.

Long Term Orientation focuses on the degree the society embraces, or does not embrace, long-term devotion to traditional, forward thinking values. High Long-Term Orientation ranking indicates the country prescribes to the values of long-term commitments and respect for tradition. This is thought to support a strong work ethic where long-term rewards are expected as a result of today's hard work. However, business may take longer to develop in this society, particularly for an "outsider". A low Long-Term Orientation ranking indicates the country does not reinforce the concept of long-term, traditional orientation. In this culture, change can occur more rapidly as long-term traditions and commitments do not become impediments to change.
Scores for each of the countries Tekno Point operates in are presented in Table 4.2, with the exception of Long-Term Orientation. Although Long-Term Orientation is a very interesting dimension, we have not been able to identify a consistent set of scores for the four countries Tekno Point operates in.

Table 4.2. Scores (on a 0-100 scale) on Hofstede’s cultural dimensions for Italy, Hungary, Romania and Slovakia.

<table>
<thead>
<tr>
<th>Country</th>
<th>Power distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty avoidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>45</td>
<td>71</td>
<td>65</td>
<td>70</td>
</tr>
<tr>
<td>Hungary</td>
<td>46</td>
<td>80</td>
<td>88</td>
<td>82</td>
</tr>
<tr>
<td>Romania</td>
<td>90</td>
<td>30</td>
<td>42</td>
<td>90</td>
</tr>
<tr>
<td>Slovakia</td>
<td>58</td>
<td>61</td>
<td>113</td>
<td>50</td>
</tr>
</tbody>
</table>

1) Scores for Slovakia from Kolman et al. (2003). They have been calibrated by using scores for Hungary as reported in Kolman et al. (2003) and by using the calibration procedure described in that paper.

The Romanian culture certainly is the most hierarchical, although Romanian are often cynical about persons in positions of authority and they like to ridicule authority and people in position of power. Italy and Hungary are very similar in this respect. Romanian culture is very collectivistic as opposed to the Italian and Hungarian culture which are more individualistic.

Score for the masculinity dimension is highest for Slovakia and Hungary and lowest for Romania, indicating a relatively high degree of gender differentiation in Slovakia and Hungary or, in other words, males tend to dominate a significant portion of the society and power structure in Hungary. Uncertainty avoidance is highest in Romania and lowest – but still intermediate – in Slovakia. This indicates relatively a low tolerance towards uncertainty and ambiguity in the three countries, generally implicating rule-orientated societies following well defined and established laws, regulations and controls (this does not confirm to the general accepted public view of Italy!).

4.1.5. Synthesis on the four countries
From the above the following overall picture emerges: Slovakia and Italy have the most open economies and most modernized. Hungary still is, despite its rather modern economy, less entrepreneur-like than Slovakia. Slovakia and Hungary share much of their history and in a sense Italy – as a neighbour of the Austro-Hungarian empire – shared part of that history as well. Romania is more or less the outsider, in a historical (its roots in the Ottoman – Turkish empire), economical (strong focus on oil and natural gas, transition to a modern and open economy not yet completed) and cultural sense. Also its integration into the EU has only recently been started and is far from complete yet. Also with respect to cultural characteristics, Romania – and to a lesser extent – Slovakia are distinct from the other countries.

4.2. Global – local dilemma for SMEs: how to control the business?

The following analysis (Table 4.3) of weaknesses / threats and strengths / opportunities emerged during the first visit in May 2007, based on various conversations with the owner / director of the company and with various managers.

Table 4.3. SWOT analysis for Tekno Point as established in May 2007.

<table>
<thead>
<tr>
<th>Weaknesses / threats:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Small enterprise thus staffing problems;</td>
</tr>
<tr>
<td>• Competitive markets, diminishing margins, need of rapid decisions.</td>
</tr>
<tr>
<td>• Administrative processes (particularly in Italy) and responsibilities need restructuring.</td>
</tr>
</tbody>
</table>
• No budgets assigned to each manager to realize their projected goals, resulting in low cost-awareness.
• Unfamiliarity with the Tekno Point product lines of home automation and vacuum cleaning, also resulting in low sales for these products.
• Brand name is not strong in Italy and Romania.
• Information is dispersed, not shared nor readily available nor properly archived.
• Information systems are weak and not geared to the primary processes.
• Organizational structure depends too strongly on the owner / founder, there is no formal MT and procedures are not existing or insufficient implemented.
• Roles and responsibilities not documented SMART nor supported by feedback procedures.
• Learning organisation: there is no consistent way in which the organization and its members develop. The instruments needed (job descriptions, personnel evaluation and feed-back conversations) are not firmly implemented.
• Targets are not felt as responsibilities and that the director is seen as responsible ‘for everything’.
• Director cannot pay full attention to presiding the MT meetings, setting the general strategy and staffing at the MT and management level.

**Strengths / opportunities:**

• Flexible organization though hampered by staffing problems.
• Growth market: technology of comfort and the support of end customers by qualified installers (complex technology, need / wish to link equipment, growing proportion of elderly people) are a growing market.
• Assembly line (Budapest) and own product and patent (the ‘invisible’) might stimulate cooperation with other manufacturers.
• Networking and linking the company to suppliers seeking outlets through the TPS system and through the installers Tekno Point is in contact with.
• Company has its own outlet channel – though weakly organized – in Italy and Hungary through the TPS shops.

From this SWOT analysis it can be seen that, apart from some occasional struggles with language problems, between-country differences were not seen as a cause of a bad ‘fit’ of the company in some country. A focus on Human resource Management because of a global – local dilemma, such as is often reported in the case of MNOs which have a strong corporate culture and have to adapt this culture and their HRM practices to accommodate their multicultural workforce that operates in a wide variety of market and juridical conditions and power networks, was not found. Being small, a company like Tekno Point does not experience such problems. It adapts itself one way or another to local conditions and that happens ‘automatically’. Also it was realized that, the more countries the company operates in the larger sales volumes and, consequently, profits can be generated. So HRM was not identified as a management challenge that Tekno Point faces in the globalization – localization dilemma.

The management challenges that appear from the SWOT analysis – fragmentation, lack of control and synergy – seem to be related to the contingency factors for SMEs. In Minzberg’s (1979) words SMEs can be characterized as ‘simple structures’, an organization headed by one person who controls all of the operations. According to Mintzberg (1979) organizations possess certain organizational states or conditions which he calls ‘contingency factors’:

• Age and size of the organization.
• Technical systems it uses.
• Environment it faces.
• Power conditions.

Organizations select their design parameters (of which there are nine such as job specialization, unit grouping, unit size, planning and control systems) ideally on the basis of its four contingency factors. According to Mintzberg (1979), design parameters and contingency factors configure into one of the following five configurations. ‘Simple structures’, which are characteristic for SMEs, are organizations headed by one person who controls all of the operations. The other four organization types are machine bureaucracy (characterized by standardization of work processes), professional bureaucracy (characterized by standardization of skills), divisionalized form (in which standardization of outputs is the prime
coordinating mechanism) and adhocracy (an organic structure with little formalization of behavior, mutual adjustment being a far more important coordinating mechanism).

What can we learn from this about SMEs that operate in a competitive international environment? According to Mintzberg, the simple structure is characteristic for young and/or small organizations. The hostile and competitive environment internationally operating SMEs experience also points to centralization as natural coordinating mechanism. According to Mintzberg (1979) direct coordination is also the natural coordinating mechanism for the kind of activities that are characteristic for many internationally operating SMEs, the production (personal note: or sales) of units to customers’ requirement, such as opposed to mass production and process production. So in itself, the simple structure should fit many internationally operating SMEs well.

As SMEs internationalize (OECD, 1997), they will react differently from MNOs. Because of their smaller size, SMEs have less ‘weight’ with respect to cultural, juridical, economical influences of a new environment and they can also exert less control over the new environment. Therefore, they are forced to adapt to local circumstances. So their problem is not “should we adapt?” and even not “how to adapt to local conditions?” because adaptation is the only option available. They do adapt, one way or another depending on circumstances and the result is some kind of a conglomerate firm, though of still small size and with all further characteristics of a simple structure. In case of an internationalizing SME, the main dilemma to its owner / director seems to be that he has to run what has characteristics of a divisionalized firm with the resources of a simple structure. How can he manage and control this?

After analyzing and discussing the SWOT analysis with the director / owner of Tekno Point it was realized that weak information systems and unavailable and dispersed information was at the bottom of most weaknesses. It is also a severe threat to successful learning within the company, to the ability to take rapid decisions and to the assignment of clear targets and responsibilities within the firm. Of course, it is the fate of any vital and growing organization that it will create chaos within itself, because it is constantly reacting on the environment, starting new projects, changing or ending existing ones, developing new attitudes and new objectives, etc., there is a constant trend to chaos. Thus, the question is not how to avoid this chaos, but how to manage it and reap the fruits of it by learning and thereby constantly reducing the chaos while new chaos is created.

In order to learn, the Planning & Control cycle of the company needs better structuring with responsibilities more divided among the management. Daily problems at Tekno Point at this moment too much occupy the director’s attention. On the other hand, the basis of each learning process for a commercial firm, information on the market and client’s behaviour is not channelled through properly within the firm. This means setting up an information system within the company and appointing clear responsibilities within the company.

The information system is the first priority as it is the basis for all management choices and for any learning process. It should supply management information on the five ‘pillars’ of business information: buying costs, selling prices, stocks, budgets, sales and customer relations. Most of the software is already available: GEN in use in both Italy and Hungary, the excel sheets used in the Hungarian branch and the CRM developed in Italy. Budget information, however, is new. However, in order to create cost-awareness among the company and to improve competitiveness, this information is needed at the management level. The information system should produce daily reports on sales to the commercial managers and monthly reports on sales and stocks to be discussed at the MT level.

In order to prevent ‘Garbage in, garbage out’, setting up the information system needs to be supplemented by a restructuring of the administrative sales (ordering / facturing / stock information / credibility) process including standard letters according to the steps outlined in Appendix 2. This action might imply some changes with respect to the procedures as prescribed in Hungary by ISO.
A clear insight into the Planning & Control cycle of the company implies clear responsibilities within the Management Team and the company in general. This needs in the first place the implementation of Management Teams within the company (Appendix 3) that works with a yearly MT agenda that reflects and supports the P&C cycle (Appendix 4). It also implies clear job descriptions, including for the director. Finally, it needs the implementation of a cyclic system of personal talks by setting yearly personal targets for all employees (in December) and in November (evaluation of targets). The evaluation talks are the base of a systematic review of employee status and staffing requirements in December by the MT.

In summary and using the terminology by Aycan et al. (1999), this consequence of the global – local dilemma as it presents itself to SMEs, viz. the need for better control mechanisms within the firm, originates not so much from external factors – whether the enterprise environment or the socio-economical environment – but from the internal (organizational) environment which is more or less outgrown by the complexities introduced by the internationalization of the firm’s activities.

4.3. Global – local dilemma for SMEs: finding synergy in product-market strategies

Management and control are means, not goals in themselves. Once sufficient information is available, to what management challenges is it pointing? To answer that question during the second visit to Tekno Point in October 2007 a series of interviews were held (Appendix I). From the interviews but also from a series of workshops held during that visit the need to increase synergy within the firm and to define a successful product-market strategy became apparent:

- Sales were declining (see Table 4.4).
- The Tekno Point brand is little known in the countries it operates in, particularly in Italy and Romania.
- Sales per agent are too low in both Italy and Hungary, resulting in low profitability.
- The distribution (TPS) networks in Italy and Hungary function insufficiently and its expansion hampers.

Table 4.4. Yearly sales (1000 €’s) by Italian, Hungarian and Romanian branch.

<table>
<thead>
<tr>
<th>Year</th>
<th>Italy</th>
<th>Hungary</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>800</td>
<td>1,948</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>600</td>
<td>1,524</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>600</td>
<td>??</td>
<td>500</td>
</tr>
<tr>
<td>2007</td>
<td>575</td>
<td>1,766</td>
<td>500</td>
</tr>
</tbody>
</table>

Can we understand this management challenge to create synergy from a more general consideration of management challenges? At the strategic level within a company the following management challenges can be identified:

- In an inside-out approach the management chooses a company profile with respect to juridical and financial status, products or services to be sold, markets, size and structure (Vijverberg 1998, p. 103).
- In an inside-out approach management can also focus on the business processes of the company: given the products and markets of the company, how should the company organize its business processes (Vijverberg, 1998, p. 125)? This relates to efficiency of organization, quality of the product and, consequently, indirectly to HRM strategies of the company.
- In an outside-in approach, management choices are related to the products or services to be sold (product-market combinations), the position in the supply chain and the position the company chooses with respect to its various stakeholders (Vijverberg, 1998 p. 206).

So, depending on the approach that is adopted, there are the following management challenges:

- Juridical status;
In our case, studying a SME with a simple structure, juridical and financial status, size and structure are given. Position in supply chain and position of the company with respect to stakeholders are also usually given and not much influenced by internationalization. Although all before-mentioned factors will be influenced to some degree by growth of the organization, this leaves the following five possible management challenges open to internationalizing SMEs:

1. Product-market combination(s);
2. Markets and market approach;
3. Efficiency of business processes;
4. Quality of products;
5. HRM strategies.

In this study a commercial firm is analyzed that sells products produced by other companies. Then, quality of products only comes in as a secondary factor. Efficiency of the business process also is not a key factor because the process of commercialization only has moderate weight in the total cost structure of the firm and processes within SMEs tend to be efficiently organized with few ‘red tape’ and bureaucracy. Quality of products and efficiency of business processes can be important and in fact decisive fields of management attention in, for instance, the case of internationalizing SMEs that concentrate their production facilities in one country. HRM is often not a specialized function within SMEs at all, so it apparently generates few management attention.

As both the optimum product-market mix and the optimum sales channels differ between countries, much management attention is needed to address these problems in the case of an internationalizing, commercial SME. This in order to prevent that there is insufficient synergy within the firm, eventually leading to the internationalizing SME falling apart. This means, in practice, to start a learning process within the company that transcends all ‘divisions’. This, however, within the reality of scarce management attention and often incomplete and insufficient information within the internationalizing SME.

In a series of workshops held during the second visit in October 2007, these problems of optimum product-market mix and optimum marketing channels were further analysed.

**Optimum product-market mix**

In general the market conditions for the goods that Tekno Point sells, are fair. The product range of Tekno Point comprises air conditioning equipment and ventilators, heating, central vacuum cleaning systems and security systems. Air conditioning and ventilation make up the biggest part of it by far. Marketing possibilities for air conditioning and ventilation are in general good. The Italian market is one of the oldest and biggest markets in Europe. The total market value of air conditioning equipment in Italy in 2000 was $ 725 million and is expected to expand slowly by approximately 2 percent over the next 2 years although some sources foresee larger growth percentages. The reasons underlying this slower growth are the general slowdown in the overall economy and a fall in consumer confidence. Also the slowdown of the government incentive programs for the renovation of homes, which have encouraged homeowners to refurbish their apartments and homes during the last several years, will see a decline during the next few years.
The above holds as well for the other three countries, Hungary, Romania and Slovakia, though with some modifications. Firstly, the middle and upper class segments of these societies are relatively small, which results in a smaller market and a tendency towards smaller equipment. Economic growth hampers in Hungary but is strong in Slovakia and Romania. Market conditions in Slovakia and Romania are distinctively better for Tekno Point because of high growth rates and strong investments in construction. This offers opportunities to install large quantities of equipment in housing projects. So there are some differences between countries that should affect the marketing strategy.

A positive factor is the change of consumer preferences over the past several years. Air-conditioned environments are becoming more popular, and the trend is towards small units offering energy savings and climate control: air-conditioning units which allow for finely-tuned temperature control, perhaps allowing reversal of heat and cold, with minimal energy consumption.

The air-conditioning and ventilation market is extremely competitive. Italian (Italy is the third most important producers of air-conditioners for residential use), U.S. and Japanese firms compete. Price is thus an extremely important competitive factor. Price competition, however, varies with marketing channel. Marketing channels with less competitive power, such as small installers and franchise stores (Tekno Point System) offering the best possibilities for Tekno Point to retain high margins. Agents should gather information on what drives the installer and how Tekno Point compares in margin for the installer (but also with respect to other factors such as easiness to install / reliability, easiness to sell) to its competitors. Also factual information as how the margins when selling through retailers, Do it yourself shops, supermarkets compare to those in the installer channel is lacking. Agents should be stimulated to be more aware of and manipulate the competitive factors by flexible pricing and cutting their own costs and to document what the competition does and compare that to Tekno Point’s offers.

Apart from price, the following three competitive factors are recognized in the market:
- Ease of installation;
- Low operating costs;
- Ease of maintenance, cleaning and operation by the user;
- Technical factors include limiting noise pollution and ensuring energy saving qualities;
- Styling: units should have an attractive design to meet tastes and, at the same time, should have small dimensions to minimize space requirements in small apartments, shops or studios.
- Quality of the product (both objective and as perceived by the client: familiarity with the brand name);
- After-sales service.

The Tekno Point products are of a good quality with stable suppliers and are universal products of universal demand as is confirmed by the market perspectives given above. Also the product range, which sometimes – within the firm – was referred to as being to wide is build up logically and offers good opportunities to sell ‘packages’ of related products to clients without extra costs for the company. The product range also renders possible to lengthen the ‘sales season’, air condition and ventilation being seasonal goods. The products are advanced with ample attention being given to aspects such as energy consumption, styling and ease of operation.

Insufficient adaptation to local market conditions was not thought to be an important factor in either the interviews or the workshops. Ease of installation, for instance, is of particular importance in the Hungarian market as retailers and Do it yourself shops sell directly to end-users. Also because of differences in purchasing power, the Italian market is better served by upper end equipment whereas the other markets are better served by lower end equipment.
Also insufficient marketing efforts were discarded as a possible cause of problems as marketing ideas and marketing material were sufficiently available though often underutilized.

The presence of a nationwide service organization which can guarantee installation and maintenance will prove a definite advantage. For a newcomer such as Tekno Point this is hard to achieve. Also the brand name is not familiar in Italy, in contrast to Hungary where Tekno Point has been on the market for more than 10 years.

*Selecting optimum sales channels*

Marketing channels vary from country to country because of different possibilities and niches. For instance, the choice to work with multi-firm agents in Italy was made at the start of the operations of the Italian branch because there were few possibilities to attract mono firm agents for a starting firm. It was also deemed too risky from a commercial point of view, multi firm agents being much cheaper.

The typical end-user purchasing air conditioning units for the home belongs to the middle and upper-class who enjoy the comforts of life, including air conditioning in their car (which has just about become standard equipment) and home. End-users tend to buy in both small shops and specialized electronic and consumer goods retail outlets. Many department stores and hypermarkets are now also selling consumer electronics and appliances, including air conditioners. Some local firms are now also selling on-line. It should be noted that there are other end-users of small air-conditioning units, including the service sector (hotels, health spas, hospitals and banks), small businesses and manufacturing plants. The public sector, including ministries and other government entities, is also an end-user of small units.

In terms of marketing and sales channels, there is a trend away from the family-type stores and to distribution chains. Italian distribution outlets include small family-owned stores, hypermarkets, shopping malls, speciality stores and discount stores. The distribution chains and hypermarkets work only with brands that can supply large quantities. For this reason it is almost impossible for Tekno Point to use this channel, all the more because it allows only very small margins. Horizontal points of sale such as general stores, which had experienced boom conditions in the early 1980s, have begun to lose ground to specialty stores, franchising chains, and hypermarkets. Supermarket chains now look toward further expansion, particularly in creating and operating large shopping malls. Where such shopping centres exist, they are proving to be successful. In order to create a unique business identity, Tekno Point could expand its system of Tekno Point System (TPS) shops and try to position these shops as to attract the more affluent, quality-oriented consumers, as well as compete on price and product selection. This is also true in Hungary where there are also TPS shops which, however, perform unsatisfactorily.

The marketing channels Tekno Point uses in the different countries it operates in, vary by country. This is a consequences of distinct management choices (such as the choice to use multi firm agents in Italy, referred to above) and different possibilities / niches in different countries:

**Italy:**
- **Agents (multi firm) - installers - direct clients (domestic, individual).**
- **Agents (multi firm) - TPS shops (30) - direct clients (domestic, individual).**

**Hungary:**
- **Agents (mono firm) - installers - direct clients (domestic, individual).**
- **From office - retailers - direct clients (domestic, individual).**
- **Agents (mono firm) and commercial manager - Do it yourself shops - direct clients (domestic, individual).**
- **Product managers and agents (mono firm) - projects - direct clients (projects).**
- **From office - TPS shops (5) - direct clients (domestic, individual).**

**Romania:**
1. Agents (mono firm) – supermarkets and Do it yourself shops - direct clients (domestic, individual).
2. Agents - local distributors (installers) - direct clients (domestic, individual).
3. From office – projects - direct clients (projects).

As a consequence, the management dilemmas for Tekno Point to select the right marketing strategy, viz. the optimum combination of product-market mixes and sales channels, is made extremely complex because both the optimum product-market mix and the optimum sales channels differ for each of the countries it operates in.

When selling through installers, the agents should develop a feel for "what concerns the installer?". This could be:
- The installer’s margin;
- Reliability, ease of installation and technical support: installers are by nature conservative and – given equal prices and profit margins – will install that brand that generates the least problems and that has the most trust in the market;
- Easiness to sell, viz. competitive prices to the end user.

The underlying problem is that information within the company at the management level that answers these questions is insufficient nor readily available. This renders the marketing channels, marked yellow, problematic.

When selling through retailers, supermarkets and Do it yourself shops, the margins for Tekno Point are very small as these outlets have a strong negotiation position with respect to Tekno Point. This renders these channels, marked red, problematic. Also in this case, factual information as how the margins in these channels compare to those in the installer channel, is not readily available.

The TPS shops in Hungary and Italy function unsatisfactorily and it will require a large effort to improve this sales channel (marked blue), not only in terms of financial means but also in terms of management attention. On the other hand, the TPS shops do offer big potential in the sense that they cannot only serve as a sales channel but also can be used to gather information about the consumer’s preferences of the domestic end user. Also the TPS shops will be a strategic asset in any negotiation with other companies about joining forces in (segments of) the market.

In order to successfully bid on commercial projects in the construction industry, after-sales service and a strong (technical) back office is an important competitive factor. Tekno Point is still halfway to achieve this. Even more important is, that the market for projects is being served by technical designing bureaus. So in order to supply to the project market, Tekno Point should develop relations with these bureaus. This calls for different marketing channels than the existing ones which renders the sales to projects (marked blue-green) problematic. In conclusion, insufficient 'feel for the markets' by the agents, the incapability to serve the market for larger projects, the bad performance of the TPS shops, the unfamiliarity of the brand name and the difficulties to build up a nation-wide service network were identified as the main problems with respect to marketing channels.

The performance of the sales agents and their poor 'feel for the markets' was seen as the principal problem. The sales by the agents are unsatisfactory and they contribute few to learning of the market. The agents lack sufficient insights on the installer’s margin for Tekno Point as compared to other brands and the installer’s appreciation of Tekno Point in terms of relative (with respect to other brands) reliability and easiness to sell. They also lack information as how the margins when selling through retailers and supermarkets compare to those in the installer channel. In short, their focus is too much on Tekno Point and not on the relative position of Tekno Point in a competing world. Also the information systems within the firm that have to be used by the agents do not ask for this type of information. Based on the information on sales that is now available on a weekly basis, a learning process should start in which initiatives to develop and facilitate that feel for the market are monitored with respect to the extra sales they generate. In order to serve better the market for larger commercial and domestic projects, Tekno Point should develop relations with technical designing bureaus.
The product range includes the equipment to serve this market. The real problem here is to be known and to be trusted in the market and to have staff at the engineering level, that know all about the technical capabilities of the equipment and can communicate with these bureaus.
5. Conclusions, discussion and recommendations

In a rapidly globalizing world, business organizations increasingly operate on a global scale. In order to do so effectively they face the dilemma that, on the one hand, they have to operate globally whereas, on the other hand, they must be firmly rooted in local cultures, markets and power networks and also must accord to local laws. This dilemma has given rise to an extensive body of management literature and theory. Much of the existing literature on the issue of globalization – localization deals with large, Multi National Organizations (MNO’s). These theories generally claim that HRM policies and practices to a certain degree are influenced by national factors such as culture but also national economics, legislation and socio-economic conditions. Apart from that, HRM policies and practices are also influenced by the corporate culture, relevant contingent variables and organizational strategies and the business environment.

The objective of this study was to find out whether the above also holds for internationally operating Small or Medium-sized Enterprises (SMEs). Specific research questions are:

1. “Which management challenges do internationally operating SMEs face? Is this HRM or are they related to contingency factors for SMEs such as a better planning and control process within the firm in order to have better control of the firm and to increase synergy within the firm, in the case of a commercial firm to select product-market combination(s) and a market approach that will fit best within the company?

2. Why this choice is made by SMEs, what is the logic of it and what can be the nature of the adaptation?

When studying which management challenges internationally operating SMEs face, one finds little literature. From the experience of Tekno Point it appears that, apart from some occasional struggles with language problems, between-country differences were not seen as a cause of a bad ‘fit’ of the company in some country nor were they seen as a problem with respect to the commercial performance of the company. Being very small the company had to adapt itself one way or another to local conditions and that happened ‘automatically’. So, contrary to MNOs, HRM is not a management challenge that internationally operating SMEs face in the globalization – localization dilemma. Instead they face problems with organizing there planning and control processes. Having solved these, they can start fighting the real, underlying problems: fragmentation and the need to create synergy within the firm.

Why this is so can be understood by analyzing the contingency factors made by SMEs. According to Mintzberg (1979), the simple structure is characteristic for young and/or small organizations. The hostile and competitive environment internationally operating SMEs operate in also points to centralization as natural coordinating mechanism. Direct coordination is also the natural coordinating mechanism for the kind of activities that are characteristic for many internationally operating SMEs, the production (personal note: or sales) of units to customers’ requirement, such as opposed to mass production and process production. So in itself, the simple structure should fit many internationally operating SMEs well.

As SMEs internationalize they will react differently from MNOs. Because of their smaller size, SMEs have less ‘weight’ with respect to cultural, juridical, economical influences of a new environment and they can also exert less control over the new environment. Therefore, they are forced to adapt to local circumstances. So their problem is not “should we adapt?” and even not “how to adapt to local conditions?” because adaptation is the only option available. They do adapt, one way or another depending on circumstances and the result is some kind of a conglomerate firm, though of still small size and with all further characteristics of a simple structure. So in case of an internationalizing SME, the dilemma to its owner / director is that he has to run what has characteristics of a divisionalized firm with the resources of a simple structure. How can he manage and control this? But management and control are means, not goals in themselves. In essence, they must provide the material for the learning processes that are relevant for a given organization.
What is the validity of the above conclusion that, in the case of internationally operating SMEs, the globalization–localization dilemma presents itself in the management challenges of organizing planning and control systems (and awareness) within the company and – based on those systems – organizing the relevant learning processes? In this study we used the methodology of grounded theory. In grounded theory the research does not start with a theory from which it deduces hypotheses for testing. It starts with an open mind, aiming to end up – after several research cycles concentrated on one of some cases – with a theory. Three things are, thus, essential: an open mind at the start, an open mind and the capacity to listen during the study and a strategically chosen case. The open mind is hard to prove and a special problem related to the open mind question is that during interviews, workshops and discussions it is often as important to ‘hear between the lines’ than it is to register what is actually said. The company studied, Tekno Point, is an example of a strategically chosen case though the limitations of the choice should be realized. It is a commercial firm that sells equipment that is of rather universal demand within a region (South / Central / East Europe) of a diversity that is not extreme. Nevertheless, I feel confident that the main conclusion about the importance of planning and control which has also a foundation in existing management theory is of general validity. What will change with other cases studied, is the nature of the learning processes, nourished by the planning and control systems.

In retrospect it can be argued that the above conclusions not only refute the importance of HRM as the main management challenge that internationally operating SMEs face, but in a way also corroborate the importance of HRM also for SMEs. Not in the sense that they seek ways to adapt their – often universalist – HRM practices to local standards, as is the case for MNOs. But in the sense that planning and control and, particularly, learning processes have a relation to HRM. The style chosen for planning and control, the choice whether to rely exclusively on systems or to raise the planning and control awareness as well, the HRM component of planning and control systems (personnel talks, translation of company objectives into personal objectives), the focus on learning processes, etc. are expressions of this relation.

Practical implications of this study are that director / owners and managers in general of internationally operating SMEs should have a keen focus on information within the firm and on its use for and use in learning processes within the firm. Organizations such as the OECD but also national organizations that try to help SMEs in internationalizing should provide assistance in these management fields.

In two directions future research may be fruitful. In the first place in widening and deepening the analysis presented in this study by analyzing more and diverse cases. So, for instance, also companies that produce goods or companies that commercialize goods of less universal profile should be analyzed. In the second place deepening the analysis of possible learning cycles for SMEs. For instance, how can SMEs successfully use scarce financial resources to familiarize their brand names? Or how can they successfully use scarce financial and management resources to establish their own outlets by means of a franchising system? I hope this study serves as a stimulus to those initiatives.
6. References


Appendices:

I. Interviews

I.1. Interview with owner / general manager, mr. Fulvio Bolgan

**Question with respect to role and responsibilities of the particular manager.**
Owner. Head of the Teknopoint firm. Chairman of Hungarian and Italian MT.

**A set of trigger questions developed at the Institute of Future:**

*Questions about the future:*
What will be the key characteristics that will define the future external development for the organization?
On the one hand external developments are favourable: there is a strong demand for comfort products (climate control, home automation). On the other hand external developments are rough: very fierce competition. Our market approach, to work with installers, does not work. Either the idea is good but not worked out properly. Or the idea itself is bad. The problem cannot be the product which in itself is good and has plenty perspective. So the problem has to do with the medium we choose (installers). We directed our attention to the medium / small installers in the hypothesis that he needs help. Does he need help? Do we give him the right support? Do we give enough follow-up? How do the medium / small installers perform in present-day society? We need to identify the small installers with growth potential. So Teknopoint has an identification problem. And we should be able to say 'no' to clients which are not interesting.

What will be the key external uncertainties providing threats and opportunities for the organization?
Biggest uncertainty is the wholeseller that supplies the installer. This is a difficult market (wants big brands and low margins).

What should you personally want to leave behind?
A stable company that is not totally dependent on me.

*Questions about the present:*
What are the main decisions to be taken?
The main decisions have to do with the market approach and also the product mix. And starting from that we have to decide on the staff that is generating the sales.

What is standing in the way of a good future?
Investment in the staff needs to have an image, to have a market approach, to do advertising. So it needs financing and consequently a certain sales volume. For three years the firm is losing money and I have discussed this with Oscar who is not positive. I do not want to stop. I do not want a defeat.

What are the organization’s current competencies and resources that will enable it to address the opportunities identified?
We have a good product with a reliable supplier. We have a good reputation in the market. We have a good know-how.

Which competencies and resources does it lack that will constrain its ability to respond?
Our distribution and sales network in all three countries is weak, though in Hungary little better. Also we lack technical skills to give support to the market, particularly in Hungary. And finally the company is not known in the market, so the sales come not from themselves, they have to generated.

*Questions about the past:*


What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
I think that in the past years we have achieved a better planning (on the basis of the numbers we now have). Also we have now a better feel for the market.

What key lessons (positive or negative) should we learn from the past?
Trading means a product, a network, a market, … In short, a lot of components which each ask for attention. A personal learning point is my ability to work with my managers. Some of them are too dependent on me. Others are ambitious but the question is how long they remain.

Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, …) at the company:
Who’s responsibility is it?
Mine (Fulvio Bolgan).

Who is doing it?
Selection I do myself. Training is done in Italy by Stefano (technical training) and Claudio (commercial training). In Hungary it is done by Csaba (commercial training) and the product managers (technical training). Bookkeeping (salaries and holidays) are registered and monitored by Laura. Commission to sales people and sales staff is handled by me in cooperation with the commercial staff (Claudio in Italy, Csaba in Hungary).

What is its main focus?
My main focus in selection of new people is on the personality of the selected people: I am looking for ambition, independence, systematic approach to bookkeeping. Also I check with commercial people on their capability to work with the installers and the network they contribute to the company.

What are the main problems?
Control of agents is the main problem. Seeing if they perform and to stimulate them if they do not perform or perform enough.

Are there any differences between countries?
Yes, in Hungary control of agents is easier because they are employed by the company and they are monitored strictly.

What are the reasons for that?
Agents in Hungary are employed by the company and they are monitored strictly. It may also have something to do with Hungarian culture which is more hierarchical and less individualistic.

Questions about the market approach:
Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political? Distribution channels that exist in the market for historical reasons, are an important factor for us. Also the competition and price levels in the market. Legal and political factors are also of importance. For instance, support for ecological and energetically sound equipment. For instance, in Italy there is a 55% reimbursement on energy saving equipment. These products are hard to sell. Thus this makes it a challenge to the sales people to explain this and to point consumers to their longer term interests. Subsidies on energy saving equipment are also relevant in Hungary but nobody knows the law there. The product itself is as I see it universal with a universal demand.

Why are these factors important, which effects do they produce on your organisation? They affect our marketing approach and our competitive strength.

Are there any differences between countries?
Yes. With respect to distribution channels: in Italy we have to work through agents whereas in Hungary we have our own sales organization. In Hungary we are a more or less established brand so competition is easier. And also legal arrangements differ. Cultural differences do not affect our business so much as we have a universal product.

How do you learn about these factors?
The commercial directors are responsible for this. I learn about it by talking to them and by networking.

How do they affect your Human Resource Management?
I do not believe it affects the HRM function other than that the existing marketing channels in the three countries we operate in, ask for different people (focus on agents in Italy and Rumania, strengthening our own sales organization in Hungary, etc..)
I.2. Interview Italian commercial manager, mr. Claudio de Gregorio

Question with respect to role and responsibilities of the particular manager.
MT member. Sales manager in charge of 10 commercial agents.

A set of trigger questions developed at the Institute of Future:
Questions about the future:
What will be the key characteristics that will define the future external development for the organization?
Economic development and consumer growth in Hungary are weak. Also the Hungarian market is not expanding.

Questions about the present:
What are the main decisions to be taken?
The brand is not known (price and product are good) so there needs to be stronger marketing.
Also we need to clearer about the clients we want to choose: executive, master, TP service, franchisors, 'top 5' of installators within a region?
What is standing in the way of a good future?
Finding goods agents that also represent only Teknopoint (‘monomandatorio’) is extremely important – and hard. These will sell sufficient sales volume.
Also we have to put them in a position to sell. But the question is how: agents are generally evasive and do not give the precise fields they need assistance in.
More control of the agents is needed, but on the other hand more control of the agents is difficult as they do not want to be controlled.
We and particularly the agents have to identify the clients that appreciate Teknopoints strong point: service.
Quite a different problem is related to payment as there are quite some bad creditors.

Which competencies and resources does it lack that will constrain its ability to respond? ‘Magic’.

Questions about the past:
What key lessons (positive or negative) should we learn from the past?
The website is good, catalogue is good, but something in our marketing is wrong. At any rate we should timely deliver and have spare parts timely available.
Maybe we should lower the margin.

Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ...) at the company:
Who’s responsibility is it?
I am responsible for the agents: selecting them, rewarding them, bonuses, etc.

Who is doing it?
I do this, discussing final decisions and general strategy with mr. Bolgan.

What is its main focus?
My main focus is on finding agents. Good agents that have ample commercial qualities and are faithful to your firm are very hard to find. I also help them, in setting up demonstrations and in establishing networks. They are very hard to monitor.

What are the main problems?
To monitor them and to steer them. These are very independent people who want to do things their own way.

Questions about the market approach:
Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
We have a good product and we have a good price. Still I see that sales are lagging behind. I donot know what is the cause of this.

Are there any differences between countries?
I am responsible for sales in Italy. I cannot very well compare the Italian situation to that in other countries.

How do you learn about these factors?
Through my agents, although it is hard to let them make reports.

How do they affect your Human Resource Management?
I do devote much of my time to finding agents and, once I have found them, by monitoring and coaching them.
I.3. Interview with Italian product manager, mr. Stefano Talamo

**Question with respect to role and responsibilities of the particular manager.**
MT member. Product manager for all the products: contact with factories and with customers (installators), after sales. Responsible for product catalogue and price list (also input from Hungary). Chef of: -.

**A set of trigger questions developed at the Institute of Future:**

*Questions about the future:*
What will be the key characteristics that will define the future external development for the organization?
European law with respect to energy saving becomes evermore important (e.g., 1 central heating unit in one apartment block instead of single units in each individual apartment). In general the focus on energy saving. This is a positive tendency for Teknopoint as we can supply the equipment. Another important trend is the speed-up of technical changes and small product modifications. This is a negative point for Teknopoint: as we are not a producer it makes our technical support to the installators more complicated. Styling becomes increasingly more important. This is particularly so in Italy.

What will be the key external uncertainties providing threats and opportunities for the organization?
The introduction of new European law that affects our business.

What should you personally want to leave behind?
A good after sales support.
Good information system and flow of data within the office.

*Questions about the present:*
What are the main decisions to be taken?
What to do with our present agents: they donot perform well and are difficult to monitor. The main difficulty will be how to find new agents.

What is standing in the way of a good future?
The MT should devote it attention not only to new projects but also to evaluating the present and past. Also it is necessary to increase the number of agents in restricted regions. For instance in Lombardia add one extra agent. We should not look to adding new territory but to strengthening acquired territory. We need – as a second step, after strengthening the sales capacity – to expand the office staff (more product managers, more personnel contact with installators, more promotion, ...). Possible alliances with other companies in the contact with installators (not competitors but for instance suppliers of test equipment) may also have a good perspective for the future.

What are the organization’s current competencies and resources that will enable it to adress the opportunities identified?
- Support to the clients (installators).
- Machine stock is good.
- Quality of the machine.
- Human relation to the installer.

Which competencies and resources does it lack that will constrain its ability to respond? Our wide product range is also a weakness: it makes after sales support difficult. Also Teknopoint is a new name in the market and relatively unknown. Marketing should therefore receive more attention. Also more professional installation knowledge for the more complicated type of equipment is needed, to provide enough support to the professional installer.
Questions about the past:
What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
Improvement of information flows within Teknopoint and also for the customer (product manual, ...). As a negative point, the commercial function / commercial support has disappeared.

What key lessons (positive or negative) should we learn from the past?
We are a commercial organization. So close contact with the factories that produce our goods is vital for our ability to give a good after sales support.
We need also take time to analyse the data in our monitoring / information system, generating the numbers is not sufficient. And have attention for day-to-day problems.
An other point is that the agents must sell, not the office. So more support for the agents and the installators is needed.

Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ...) at the company:
Not discussed.

Questions about the market approach:
Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
Energy consumption.
Design.
New technology (condensing boilers, compressor type airco’s, ...).

Why are these factors important, which effects do they produce on your organization?
They shorten the life cycle of products (because of new design, new types of products, etc.), which also impacts after sales, making it more complicated. It also gives opportunities for entering new markets.

Are there any differences between countries?
Not so much as our products are global products. Attention for design is more in Italy.
I.4. Interview with Hungarian commercial manager, Mr. Csaba Ungvary

**Question with respect to role and responsibilities of the particular manager.**
Mr. Csaba Ungvary is member of the Hungarian MT and Head of the Commercial Department. His staff includes an assistant and 7 agents that sell to installers, retailers and big stores. This interview was held some days before a MT meeting in which it was decided to place also the Teknopoint Service (TPS) franchise shops into his Department.

**A set of trigger questions developed at the Institute of Future:**

*Questions about the future:*
What will be the key characteristics that will define the future external development for the organization?
Key to the development of Teknopoint are the trends in consumer’s awareness. At present we have had the Chinese price shock and consumers generally go for the cheap (and bad). Teknopoint aims to sell mid range products of good quality and good service. Hungarian consumers start to realize that quality has its price. We should profit from that trend and strengthen it.

What will be the key external uncertainties providing threats and opportunities for the organization?
The Hungarian political situation is difficult (note: the day after the interview there were serious disturbances in Budapest). The government lied about what it could promise to the people and moral is bad. This has also a negative influence on consumer income and economic growth.

*Questions about the present:*
What are the main decisions to be taken?
- The organization now is 14 years old and it has its partners in the market (installers, agents, TPS, ...). I do not see sufficient strategy and plan.
- The structure of the organization is unclear, the organogramme is dead paper.
- The Planning & Control cycle is very weak and should be strengthened.
- MT meetings should be held more regularly and orderly.
- Also Human Resource Management is unclear; much more personal monitoring is needed.

What is standing in the way of a good future?
- Strengthening of marketing function. As Teknopoint has a broad range of products of medium quality / price the company needs strong marketing for growth.
- The product line could be widened by including alternative anergy products (solar panels) that fit within the general Teknopoint product line.

What are the organization’s current competencies and resources that will enable it to address the opportunities identified?
Strong points are our stock and quick delivery. Also the quality of our products is a strong point of the company.

Which competencies and resources does it lack that will constrain its ability to respond?
Apart from the things mentioned before (better planning and strategy, better monitoring and control, strengthening of HRM, regularly held MT meetings) another point to improve is the insufficient flexibility of our sales people. They really have to think with the customer and advise him – not take his questions and wishes for granted. A last point I would like to mention is the need for monitoring our logistics and deliveries so that we can “follow” our products.

*Questions about the past:*
What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
Key developments are that we have increased the flexibility of Teknopoint. We have specialized personnel for most of the functions needed. Also the relation with our partners has
improved over the years. And we have achieved that the brand name Teknopoint now is known throughout Hungary as a result of our promotion.

**Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ... ) at the company:**

Who’s responsibility is it?
For my own department it is my responsibility. In practice it means the selection of personnel, having personal talks with them (about goals and evaluation) and rewards either positive or negative through the bonus system.

Who is doing it?
I do the HRM function; final decisions taken with mr. Bolgan.

What is its main focus?
My main focus is on energy. Sales people need to be very energetic. That is a basic requirement. If they do not have that, they will fail.

What are the main problems?
Maintaining the focus of the sales people on the products they sell, on their targets, on the way they sell, etc. This may be particular for Hungary: people need a lot of control. On the other hand, too much control makes people lazy. As I myself am inclined to exercise strict control, I should be aware of this negative side effect.
The agents do have good job descriptions and that, combined with the personal talks and my coaching I use in maintaining the focus. We are constantly improving but there is still plenty possibility of further improvement.

Are there any differences between countries?
The strong need for control (see above) is specific for Hungary.

What are the reasons for that?
This is a consequence of the old Communist regime: in those years (prior to 1989) people had stable jobs and showed few initiative.

**Questions about the market approach:**

Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
Hungarian people do not appreciate marketing in vague general “feel good” terms. They want specific product information with a direct relation to the price. Design is of secondary importance and might even be a disadvantage if it more or less transmits the hidden message that the equipment will not work (properly). Also energy consumption is a secondary argument to sell, but only if it has a clear financial benefit to the user.

How do you learn about these factors?
In the first place it is a belief, a way of seeing things. I believe in the need of such a belief because belief is an energy which can create, so to say, reality (Csaba: these are my own words but I think you meant this; is it correct???). In the second place it is based on my own reacting when purchasing goods and that of my friends and of observing buying processes. In the third place it is based on reports by agents and partners and by questioning them. Market research is not named.

How do they affect your Human Resource Management?
The ultimate goal of Teknopoint is to build up a long term relationship with our customers. So in selecting and training the sales force the above should be important and included.
I.5. Interview with Hungarian product managers, mrs. Ilvano Kecskes

Question with respect to role and responsibilities of the particular manager:
MT member. Tasks are too many and also unclear. I am product manager for home automation and central vacuum cleaning. Also I do translations, some marketing jobs, am some kind of a management assistant to mr. Bolgan and finally I also do some agent work. It is not only too much but I also do not like the marketing function. At present I do not believe that I can change the situation and the organization as a whole.

A set of trigger questions developed at the Institute of Future:

Questions about the future:
What will be the key characteristics that will define the future external development for the organization?
We have a good product of good quality and of a good price. The central vacuum cleaning system is unique and the automation system is appealing because its simplicity for the user. General conditions in Hungary are not so good, the Hungarian market being small, is not rapidly expanding and there are much competitors. Hungarians do generally not appreciate good quality and go for the lowest price. Teknopoint cannot move into that market segment. In order to compensate for that we need to emphasize our after sales.

Questions about the present:
What are the main decisions to be taken?
In the first place, the staff must change because communication is very bad within the company. Also because a lot of the staff is below my level, about 70%. They do not give me support and I have no trust in them. Replacing them should be the answer but is not realistic. The answer should be especially to organize better the jobs, particularly the office jobs. After Csaba has arrived I do have the support of a good commercial manager. Also, there are MT meetings but they do not work because no decisions are taken for immediate solutions.
I believe in Teknopoint but I can not contribute to these changes. I cannot be a good product manager.

What is standing in the way of a good future?
- In the first place a good sales organization;
- In the second place the Hungarians still have the cultural inheritance of the Communist system, resulting in slowness and not taking initiatives;
- Language problems within the company;
- Chaotic organization: Teknopoint acts like a fire brigade;
- Insufficient knowledge of the profitability of each product.

Questions about the past:
What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
In 2000 the company was very badly organized. A lot of improvements have been taken since then but these are not enough. We also need a better organization now because we sell far more products in many models and types. The logistic function has improved. Still very much improvement is needed in the agents (also their number has remained stagnant) and the TPS system (management!).

What key lessons (positive or negative) should we learn from the past?
My own personal lesson is that I have to say more “no”. For the organization as a whole it is that the organization still needs much and urgent improvement.

Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ...) at the company:
Who’s responsibility is it?
It is not clear who’s responsibility is the selection of personnel. With respect to training, there are no plans for training the agents and the TPS people. The TPS people are very rarely visited.

Questions about the market approach:
Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
My general opinion is that Teknopoint is not known well in the market. It therefore needs strong marketing and a good marketing plan. I feel frustrated because I can not do it and also because for the moment we do not have the means to finance one. (Ildiko: did you mention alternatives? I do not remember quite clear. I have some notes about utilizing the agents, the TPS and product managers but I am not sure whether this is what you said or that it was I thought).

How do you learn about these factors?
By personally asking buyers of other products and by talking to resellers. Also by a market comparison I made two years ago. Reports from agents or from the TPS system I need badly and asked for but do not receive.
I.6. Interview with Hungarian Head of Logistics, mr. Ivano Ribet

Question with respect to role and responsibilities of the particular manager:
Member of Hungarian MT. Head of Department for invoicing, warehousing and logistics (14 people). Also responsible for most of the purchasing function in Hungary (except air conditioning which is done by mr. Bolgan) and product manager for electrical equipment.

A set of trigger questions developed at the Institute of Future:

Questions about the future:
What will be the key characteristics that will define the future external development for the organization?
As we have a good organization, a good price/quality balance and products with a universal demand, outside developments are not so important for Teknopoint. Design, the need for service and energy saving are trends of secondary importance (price being the most important factor in consumers decisions).

What will be the key external uncertainties providing threats and opportunities for the organization?
See above.

Questions about the present:
What are the main decisions to be taken?
- What are we going to do with the TPS system? The idea is good but it needs a manager for monitoring, controlling and coaching. Some of them make money, others do not. Plus to my personal opinion also replacement of staff at at least 2 of the TPS units is needed. And expansion – after installation of a proper manager – to 20 units is easily possible without creating extra overhead. Expand the TPS system starting from the NW of the country, utilizing its present regional focus.
- Also a genuine product manager should enter the firm in order to strengthen product development, after sales and entering the project market.
- Expansion of the network of agents (by about 3) is also needed in order to generate more sales.
- Clearer responsibilities within the firm are needed. At present these are not clear enough.

What is standing in the way of a good future?
- See items above.
- Problem of bad credits (but at present we have a good credit control);
- Sales are too low.
- A strong technical department. The present 2 product manager are technically not strong enough (I do not consider myself to be a real product manager since my principal job is head of department and the product lines I serve are technically spoken simple and commercially seen relatively unimportant).
- Human resource function: I recently introduced a system of monthly evaluation talks with the people of my department. Job descriptions are recent and adequate.

Which competencies and resources does it lack that will constrain its ability to respond?
- We need clear goals that are clearly communicated;
- We need monitoring and decisions to be made when the goals are not reached;
- The above should be done by the MT but the MT is not a team and is too chaotic (no regular meetings, no proper decisions taken and stick to).

Questions about the past:
What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
- We have evolved from a firm that supplies only electrical equipment to a firm that has a broad range of products. This is a good thing, it has made us stronger.
- With respect to my own department we have built up the logistics. For future expansion the warehouse is big enough and can support a double turnover. After that adaptations (second truck, 1 or 2 extra people in the warehouse) may be needed.

**Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ...) at the company:**

Who’s responsibility is it?
For my own department it is my responsibility. In practice it means the selection of personnel, having personal talks with them (about goals and evaluation) and rewards either positive or negative through the bonus system.

Who is doing it?
I do the HRM function; final decisions taken with mr. Bolgan.

What is its main focus?
My main focus is on performance in a stable way: rule is rule. Therefore, in the selection procedure I focus in the first round on motivation, the candidate’s willingness to contribute to the team. In the second round I focus on their fit in the present team and on payment conditions.

What are the main problems?
To daily motivate them. But I realize that this will always be a problem in a department that executes more or less routine tasks.

**Questions about the market approach:**

Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
Because of globalization, all products are more or less the same. In order to sell, personnel contacts – and not only e-mail contact – are of evermore importance.
This is the more so because there is a severe price competition in Hungary. Therefore also a good after sales service is important in order to justify the price differences.

Are there any differences between countries?
I am also responsible for export to Slovakia and Rumania. These are countries with a very fast growth. I feel we can do more in these countries.

How do you learn about these factors?
By my own market research and by market research by the other product managers.

How do they affect your Human Resource Management?
Message to product managers and agents should be: Remain positive! Stay in contact with the market and let agents report to product managers (at present they do not do that).
I.7. Interview with Romanian partner Dan Potrovita

Question with respect to role and responsibilities of the particular manager.
Partner of the Romanian branch of Tekno Point.

A set of trigger questions developed at the Institute of Future:

Questions about the future:
What will be the key characteristics that will define the future external development for the organization?
Economic development in Romania is booming. Particularly in construction growth is very fast; this offers good sales opportunities to Tekno Point. The market, however, is very price-oriented. Construction firms but also the general public because there is no consumer protection in Romania are very price sensitive. This is a negative feature because Tekno Point operates in the middle segment. On the other hand a middle class and a luxury market are developing in Romania and Tekno Point can profit from it. Corruption is also a problem; the Romanian economy is dictated by politics.

What will be the key external uncertainties providing threats and opportunities for the organization?
There are few uncertainties. Romania will become part of the European Union and in two years will be part of the Euro zone. This offers clear perspectives for a good and stable future.

Questions about the present:
What are the main decisions to be taken?
In the first place to regionalize: Because of the large distances in Romania we have to concentrate our energy. In doing this we should emphasize our operations in Bukarest, so also there having an office because there is most of the growth and the money concentrated. Also we should think of building up our own sales network by opening Tekno Point Service shops that function as a franchise system.

Questions about the past:
What have been the key developments in the past few years that have underpinned the organization’s ability to respond to opportunities?
In the past years we have been able to achieve ISO certification for the firm. Also we have introduced more product lines than clima. This is a good development because this reduces the dependence of the company on a good summer season.

What key lessons (positive or negative) should we learn from the past?
A personal lesson is that in commerce you need some cold blood. Developments are fast but you have to remain cold-headed and focused. With respect to the company I believe there is a need for clear goals: not only numbers and projects but also the implementation of it.

Questions about the Human Resource Function (the integrated and strategic approach to the management of the personnel: selection, training, rewarding, managing, ...) at the company:
Who’s responsibility is it?
It’s my responsibility to do this for the Romanian staff. At present these are – excluding myself – three people, one in Bukarest and two in Oradia.

Who is doing it?
I do this, of course with respect to training I often profit from Hungarian activities.

What is its main focus?
I do my selection through references I receive or from direct observation of potentially new staff. This I find to work better than advertisements. Also advertisements give you a tremendous amount of reactions (gives the story of having received 280 reactions of which ultimately only 2 candidates were potentially fit to join the company and who both of them in last instance did not come).
What are the main problems?
People come and go because of the construction boom and because of emigration. So it is hard to keep personnel. This is also because there is no good social security system and consequently people go for the immediate euro more.

**Questions about the market approach:**
Which factors (in society, given the products you trade) are important with respect to the market approach: cultural, economic, legal, political?
Distribution channels that exist in the market for historical reasons, are an important factor for us. In the case of Romania these are particularly the installers and big resellers. I have to work through them. Direct sales to the public / end user are difficult as TP Romania as yet does not have their own shops and also because the TP products are a little too expensive. The transformation of the Romanian society from communism to capitalism is completed. That is not anymore a factor.
Now we see strong economic growth. In this market, design, the demand for luxury and energy saving products are of importance, but secondary. In general, people go for the lowest price, but in segments (luxury, middle class) design and energy consumption give extra sales arguments.

Why are these factors important, which effects do they produce on your organisation?
They affect our marketing approach and our competitive strength.

How do you learn about these factors?
I learn about this from personal experience as I am in direct contact with the market. I talk with the clients and with the agents and that gives me the knowledge.

5. Other
It is difficult to obtain enough marketing material in Romania. This is an important field though which more synergy can be created within the company. The same is true for our monitoring and budgeting systems that now are different in each country.
II. Procedures and instruments in the ordering / facturing / archiving process

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
<th>Document / archiving</th>
<th>Person</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Order in writing from customer (installer)</td>
<td>Archived as physical document in dossier</td>
<td>B. Zeno and S. Katalin</td>
</tr>
<tr>
<td>2</td>
<td>Check availability of items in stock</td>
<td>-</td>
<td>Same</td>
</tr>
<tr>
<td>3</td>
<td>Check selling price and fix it according to preset conditions. If in doubt: ask commercial manager</td>
<td>-</td>
<td>Same</td>
</tr>
<tr>
<td>4</td>
<td>Check payment terms and credibility. If in doubt, consult mr. Bolgan</td>
<td>-</td>
<td>Same</td>
</tr>
<tr>
<td>5a</td>
<td><strong>Italy:</strong> If all OK, then send order confirmation</td>
<td>To be added as a physical document in dossier</td>
<td>B. Zeno</td>
</tr>
<tr>
<td>6a</td>
<td>Stamped order confirmation returned by customer</td>
<td>To be added as a physical document in dossier</td>
<td>B. Zeno</td>
</tr>
<tr>
<td>7a</td>
<td>Make delivery note</td>
<td>To be added as a physical document in dossier</td>
<td>B. Zeno</td>
</tr>
<tr>
<td>8a</td>
<td>Send delivery note to logistics</td>
<td>Add fax as a physical document in dossier</td>
<td>B. Zeno</td>
</tr>
<tr>
<td>9a</td>
<td>Delivery</td>
<td>-</td>
<td>Logistics</td>
</tr>
<tr>
<td>10a</td>
<td>Invoicing end of month</td>
<td>Invoice added as a physical document in dossier</td>
<td>S. Lunazzi</td>
</tr>
<tr>
<td>5b</td>
<td><strong>Hungary:</strong> Make delivery note</td>
<td>To be added as a physical document in dossier</td>
<td>S. Katalin</td>
</tr>
<tr>
<td>6b</td>
<td>Picking order</td>
<td>To be added as a physical document in dossier</td>
<td>Warehouse personnel</td>
</tr>
<tr>
<td>7b</td>
<td>Preparation of goods to be delivered</td>
<td>-</td>
<td>Warehouse personnel</td>
</tr>
<tr>
<td>8b</td>
<td>Control and send back picking order to invoice office</td>
<td>-</td>
<td>Warehouse personnel</td>
</tr>
<tr>
<td>9b</td>
<td>If customer collects goods then make delivery note and invoice</td>
<td>Both to be added as a physical document in dossier</td>
<td>D. Mónika</td>
</tr>
<tr>
<td></td>
<td>Otherwise: print delivery note, send goods, make delivery note and send copy to customer</td>
<td>To be added as a physical document in dossier</td>
<td>D. Mónika</td>
</tr>
</tbody>
</table>

Responsible in terms of checking that these procedures are followed and possible adjustments are the commercial managers.
III. Proposed MT composition

**Italy:**
F. Bolgan (chairman), C. de Gregorio, O. Anastasio (only on important occasions and when big investments are to be discussed) and S. Talamo.

**Hungary:**
IV. Proposed yearly MT agenda

- November year X-1: marketing philosophy, general targets and sales budgets for year X.
- December year X-1: marketing plan, projected sales, budgets available to each manager and order policy for year X.
- December year X-1: results of talks to employees wrt setting personal targets for year X.
- March year X: product list for year X.
- March year X: price list for year X.
- August (this year only:) job descriptions.
- November year X: results of personal evaluation talks.
- December year X: review of employee status and staffing requirements.
- January year X+1: year closing and opening meeting (1 day) with Hungarian and Italian MT. On the agenda is a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis and a proposed strategy.
- Monthly: management reports on sales, orders, stocks, costs and special projects.
- January / February year X + 1: year report on year X.