Critical analysis of internationalisation theories

\n[toc title="Table of Contents"]\n

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1. Introduction \n \t
2. The UPPSALA Model \n \t
3. The Eclectic Paradigm \n \t
4. Industrial Networks and the Interaction Approach \n \t
5. Born Globals \n \t
6. Business Strategy Approach \n \t
7. Conclusion \n \t
8. References \n

\n[/toc]\n \n

Introduction

The globalisation process that has been occurring and indeed accelerating in recent times has been due to various factors; changes in information technology have given the impression of reduced physical distance, and so have the advances in communication technology. Also, the (economic) rise of developing nations has added new actors to the global stage. All this has been greatly aided by the adoption of various forms of international trade agreements including the establishment of economic areas such as the European Union, just to mention the most prominent example.

Whatever the causes and nature of the globalisation process, in this context the internationalisation of an individual firm has gained more and more importance as firms now have the need, and at the same time the incentive, to enter new countries and markets quickly and effectively, in order to exploit the opportunities that the global stage offers, and to avoid being left behind by their rivals.

There are different motives that can lead to a firm's internationalisation decision, and different choices that the firm's management has to make as to the mode of entry into the international market. The aim of this essay is to outline and critique some of the various theories that have been presented by academics, which try to describe how and why the internationalisation process occurs.

The UPPSALA Model

The Uppsala model describes the internationalisation process by a firm as a gradual and incremental phenomenon whereby the expansion into a new country, and therefore into a new market, happens in subsequent progressive steps, starting from exports into the new markets and aiming to the establishment of operations in that country/market (Johanson and Vahlne, 1977). The key to this process is the experiential learning or knowledge gained by the individuals who work in the firm as they proceed with the expansion. Each step in the process is thus a platform for the next step, and the firm can then expand into other countries and markets. Also, this model postulates that the expanding firm will try to enter markets and countries to which it feels closer to, and with which the psychic distance is smaller, subsequently progressing to countries and markets which are further away (not merely geographically but from a psychic distance point of view) and more different. It is a stages-based approach which has a sequential take on the internationalisation process (Whitelock, 2002).

The model has been criticised for its simplicity and perhaps excessive generalisation. Forsgren (2001) for example, addresses the scope and nature of the organisational learning that the model assumes, which only really considers the experiential learning by the organisation's management, while in practice there may be other ways in which the learning occurs. For instance, firms can learn through imitation of their competitors, by altogether taking a radically different approach from the existing one, or even by simply acquiring other firms that already operate in the new market and thus possess the relevant knowledge and/or skills.

Another criticism is the one-dimensioned approach of this model, whereby the internationalisation process occurs through exports via a third party middleman first, then via a sales subsidiary, and finally through the establishment of production facilities in the new market. This process may not be so straightforward in practice and firms may use other, even mixed approaches, depending on the individual markets they are considering. In this respect, Buckley et al (1987) analyse the case of European firms in Japan, which mostly favour the joint-venture route as a means of entry into the market.

Firms can even have a different goal from the establishment of production facilities abroad. For example, licensing may be the strategy of choice for high-technology companies (Root, 1998).

A similar model to the Uppsala model is the Innovation model as developed by Cavusgil in 1980 with its subsequent refinements, however, these " explicitly or implicitly build on Johanson and Vahlne's contribution" (Andersen, 1993: p. 212), and therefore they are not discussed in this essay.

The Eclectic Paradigm

The eclectic paradigm as formulated by Dunning (1988) seeks to explain the internationalisation process by underlining the importance of three main conditions that influence the firm's decision to internationalise its operations. Firstly, the company has to enjoy ownership advantages relative to its indigenous rivals (for example trademark rights, returns to scale, certain entrepreneurial skills etc.). Secondly, the market to be entered must be attractive in terms of the resources and factor endowments it enjoys (e. g. lower wages, certain natural resources etc.). Thirdly, there must be an advantage for the firm in internalising its production, that is to say in producing the goods or providing the services itself rather than offering them through contractual arrangements with a third party. Thus, the internationalisation process is viewed as a rational one, based on the evaluation of its benefits as compared to its costs.

This approach may be too simplistic, particularly in the light of the risk diversification theory expressed by Rugman (1979). This author points out that the same set of circumstances in relation to a certain investment opportunity in a foreign country may be assessed differently by different firms, according to their perception of, and attitude towards risk, among other things. Firms will often seek to diversify their risk and distribute their portfolio of activities accordingly. Therefore, with reference to the eclectic paradigm, different firms may act differently in relation to the same set of ownership, locational, and internalisation advantages, and the model will be deficient to the extent that it cannot take into account the firm-specific circumstances and factors that ultimately influence the internationalisation decision.

Industrial Networks and the Interaction Approach

The above theories and models, while making some certainly valid if somewhat disputed points, run the risk of being uni-dimensional inasmuch as they only really consider the viewpoint of the individual organisation that takes the decision to internationalise. However, organisations do not exist in a time-space vacuum: they interact with the world around them, which is made up of a network of other agents, and this in turn influences their decisions as to whether, and how to internationalise their operations.

This is known as the Interaction Approach, developed by the International Marketing and Purchasing (IMP) Group, which departs from other theories on four levels. Firstly, it challenges the view and consideration of a “ single discreet purchase”. Secondly it challenges the assumption of a “ generalised and by implication passive market”. Thirdly, it challenges the “ atomistic” and perfectly fluid view of the market “ with ease and speed of change between different supplier for each buyer”, and very low or no barriers to entry and exit from the market for those suppliers. Fourthly, it challenges the separation in the analysis of the buying and selling processes as if they were totally distinct and not influenced by one another (Hakansson, 1982: 1).

This approach identifies four sets of factors or variables as being key to the establishment and maintenance of fruitful relationships between the various agents (most notably buyers and sellers), and therefore to the internationalisation decision: the interaction process itself and its structure, the atmosphere in which the interaction takes place, the parties involved in the interaction process, and the environment in which this occurs (Woo and Ennew, 2004).

A criticism that has been levelled to this approach is that, while it goes in the right direction, it perhaps does not go far enough in the analysis of the interaction network that the expanding firm is involved in, and other, more detailed and specific dimensions of the phenomenon should be considered (Fletcher, 2008).

Born Globals

The so-called ‘ born global’ firm has been defined as “ a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt and McDougal, 1994: p. 49). Thus, this view of the internationalisation phenomenon differs from the theories outlined above in that, while the latter adopt a sequential and progressive view of the firm’s expansion into new countries/markets whereby domestic success is considered an antecedent to international expansion, the born global definition implies that said expansion can even occur simultaneously to the domestic phase of the firm’s growth, or at least soon after, in an accelerated manner.

A review of the extant literature on the born global phenomenon was conducted by Sultan and Wong (2011), and this highlighted that various theoretical approaches have been used to explain and describe the born global phenomenon, spanning from studies emphasising the importance of foundational resources (particularly knowledge) within the firm, to models that focus on the importance of networks, or which stress in an evolutionary sense that some firms are simply better than others at exploiting their resources and creating new knowledge, thus achieving better performance.

These authors however, also highlight that the born global approach as it stands presents some gaps, more specifically with regards to the antecedents of the born global phenomenon in terms of managerial behaviour and preferences, and with regards to the outcomes in terms of the born global's strategic (as opposed to purely financial) performance. This critique is corroborated by Zahra et al. (2005), who point towards the internationalising management's motivations as well as cognitive abilities as key determinants of the internationalisation decisions and processes. As for the performance of the born global firm, Cavusgil and Zou (1994) argue that exporting firms have multiple goals in their sights, not just financial but also strategic (e. g. establishing a presence in a strategically important market, or simply ensuring their product is known outside of the existing markets). Thus the born global approach needs to address these gaps in order to become a more comprehensive framework that can explain the internationalisation phenomenon.

Business Strategy Approach

The business strategy approach to the process of firms' internationalisation revolves around the concept of businesses making strategic choices as to whether to expand in new countries and markets, based on the practical reality of certain specific variables that they may face during the process itself . Reid (1983), as referenced by Whitelock (2002), states that these variables include the type of market the organisation faces and its opportunities, the attitudes, preferences and behaviour of the individuals who work for the company, and the firm’s endowment of resources.

ore specifically with regards to the market the firm is trying to enter, other authors identified three factors which are key to the choice of market the expanding firm might make. These are the new market’s “ accessibility, attractiveness and psychic distance” (Turnbull and Ellwood, 1986: 188). On the other hand, these authors suggest that for the purposes of deciding upon the organisational structure to adopt, more internal variables and factors may play a key role, such as the management’s preferences, technological resources and the organisation’s history (Turnbull and Ellwood, 1986).

Although this approach tries to take a more empirical and practical view of the internationalisation phenomenon, its limitation may lie precisely in the fact that in practice too many factors or variables may be considered relevant or even key to the internationalisation process, depending on each specific instance of an internationalising firm, and therefore it may not be easy to draw universally valid conclusions.

Conclusion

The various theories on internationalisation expressed above address different aspects of the firm’s internationalisation decision, and they all have their merits. The Uppsala model is more concerned with experience and the knowledge derived from it as a key influential factor in the internationalisation decision. The eclectic paradigm focuses on the cost of the transaction leading to the firm’s presence in the new market. The born global approach departs from the stages-based, gradual and sequential approaches to address the simultaneous or at least accelerated expansion of certain firms, while the Interaction approach takes into account a number of different actors and the environment which the internationalising firm tries to enter as being key to the decision. Finally, the business strategy theory states that the firm’s decision will depend on the managerial philosophy as well as the kind of opportunity the market is presenting and the resources available to the firm. None of these theories and models can be said to be comprehensive or exhaustive, so perhaps a different approach is needed, one that manages to select and condense the key components and factors of each, so as to cover most if not all of the relevant angles

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