

Internationalization: Evolution of a Concept

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Over the last two decades there has been growing interest in the international operations of business companies. Academic activity in the area has both stimulated and been stimulated by the many strands of concern – for example, the business firms themselves, with a concern to make such operations more effective and efficient in a more competitive global environment; governments, with a concern to ensure that the overall process has a positive effect on the national interest; and trade unions, with a concern about the impact on working conditions, wages and their own power.

At the outset much academic interest and analysis focused on the multinational corporation. Studies such as Servan Schreiber's [1] *American Challenge* alerted governments and others to the already extensive international operations of these companies. Much of the academic research in the early stages was involved with documenting and explaining the spread of multinational corporations, and assessing their impact, with an emphasis on their foreign investment activities. This was reflected in a spate of studies of foreign investment in various recipient countries [2] [3] [4].

However, much of the early research took the multinational, or at least foreign investment, as a starting point in the analysis, leaving many questions unanswered regarding the development process which preceded this stage, and undoubtedly affected the later steps. Horst [5], for example, after finding that firm size was a significant factor in the firm's decision to invest abroad concluded that: 'The principal deficiency in this line of analysis, I believe, is the absence of dynamic considerations. Nowhere is

[1] Servan-Schreiber, J.J., *Le Defi American*, Editions de Noel, Paris, 1967.

[2] Brash, D.T., *American Investment in Australian Industry*, Harvard University Press, Cambridge, Mass., 1966.

[3] Safarian, A.E., *Foreign Ownership of Canadian Industry*, McGraw-Hill, Toronto, 1966.

[4] Dunning, J.H., *American Investment in British Manufacturing*, Allen and Unwin, London, 1958.

[5] Horst, T., 'Firm and Industry Determinants of the Decision to Invest Abroad', *Review of Economics and Statistics*, Vol. 54, 1972, pp. 264-5.

there a description of how a firm came to acquire its current attributes . . . But if we are even to unravel the complexity of the foreign investment decision process, a systematic study of the dynamic behaviour of firms must be undertaken.' In essence a more longitudinal view, a process perspective, was called for.

Already, though, a shift in this direction had begun with Aharoni's [6] study of the various steps involved in the foreign investment decision process. As well, Wilkins [7] [8] had begun to delineate some of the dynamic factors contributing to the historical evolution of American multinational corporations.

This developing longitudinal approach was taken a stage further with a number of studies of the international operations of Nordic-based companies, studies which considered the expansion activity as an internationalization process [9] [10] [11]. Specifically, their research was important in advancing our knowledge of the process not only because of its identification of patterns of internationalization, and a method for examining them, but also because of the attempt to outline the key dynamic factors which formed the basis of forward progress. In the Nordic case the overall pattern was one of gradual, sequential development of international operations.

At the same time as this overall longitudinal research was developing in the 1970s, an interest was growing in the analysis of specific steps which contribute to the ongoing process. Inevitably, the shift to a more longitudinal approach led to an interest in the earlier steps which formed a foundation for later moves. For example, considerable analysis of early exporting activity has been undertaken in a number of countries [12] [13] [14] [15] [16]. While each new step of the development of international

- [6] Aharoni, Y., *The Foreign Investment Decision Process*, Harvard University Press, Boston, Mass, 1966.
- [7] Wilkins, M., *The Emergence of Multinational Enterprise*, Harvard University Press, Cambridge, Mass., 1970.
- [8] Wilkins, M., *The Maturing of Multinational Enterprise*, Harvard University Press, Cambridge, Mass., 1974.
- [9] Johanson, J. and Wiedersheim-Paul, F., 'The Internationalization of the Firm - Four Swedish Cases', *Journal of Management Studies*, Vol. 12, No. 3, October, 1975.
- [10] Johanson, J. and Vahlne, J.-E., 'The Internationalization Process of the Firm', *Journal of International Business Studies*, Vol. 8, Spring/Summer, 1977.
- [11] Luostarinen, R., *The Internationalization of the Firm*, Acta Academic Oeconomica Helsingiensis, Helsinki, 1979.
- [12] Bilkey, W.J. and Tesar, G., 'The Export Behavior of Smaller Wisconsin Manufacturing Firms', *Journal of International Business Studies*, Vol. 8, Spring/Summer, 1977.
- [13] Welch, L.S. and Wiedersheim-Paul, F., 'Initial Exports - A Marketing Failure?' *Journal of Management Studies*, Vol. 17, October, 1980b.
- [14] Joynt, P., 'An Empirical Study of Norwegian Export Behavior', *Skriftserie*, No. 1, 1981.
- [15] Piercy, N., 'Company Internationalisation: Active and Reactive Exporting', *European Journal of Marketing*, Vol. 15, No. 3, 1981.
- [16] Denis, J.-E., and Depelteau, D., 'Market Knowledge, Diversification and Export Expansion', *Journal of International Business Studies*, Vol. 16, Fall, 1985.

operations can be considered unique, each nevertheless provides insight into the broader longitudinal forces at work.

In general therefore research into the process of internationalization has tended to be carried on at the level of specific decisions to increase involvement as well as overall patterns and dynamic causative factors. Nevertheless, although considerable progress has and is being made in unravelling the nature and cause of internationalization – much remains to be accomplished. The various contributions represent an incomplete patchwork. As Buckley [17] has noted: ‘This development from naive entrant to established multinational has been inadequately modelled . . . and its implications for theory are as yet unassimilated.’

The Meaning of ‘Internationalization’?

At the very outset it is difficult to discuss a ‘theory of internationalization’ because even the term itself has not been clearly defined. Although widely used, the term ‘internationalization’ needs clarification. It tends to be used roughly to describe the outward movement in an individual firm’s or larger grouping’s international operations [18] [19] [20]. As a starting point this common usage could be broadened further to give the following definition: ‘the process of increasing involvement in international operations.’ An important reason for adopting a broader concept of internationalization is that both sides of the process, i.e. both inward and outward, have become more closely linked in the dynamics of international trade.

The growth of countertrade in its many forms, from pure barter to buy-back arrangements and offset policies, is indicative of the way in which outward growth has become tied in with inward growth [21] [22]. In effect, countertrade has meant that, for many companies, success in outward activities is partly dependent on inward performance. This, in combination with supportive government action in some cases, has led to a number of

- [17] Buckley, P.J., ‘New Theories of International Business’, in M. Casson (ed.), *The Growth of International Business*, Allen and Unwin, London, 1983, p. 48.
- [18] Johanson, J. and Wiedersheim-Paul, F., op. cit.
- [19] Piercy, N., op. cit.
- [20] Turnbull, P., ‘Internationalisation of the Firm – A Stages Process or Not?’, paper presented at the conference on Export Expansion and Market Entry Modes, Dalhousie University, Halifax, October 15/16, 1985.
- [21] Koury, S.J., ‘Countertrade: Forms, Motives, Pitfalls, and Negotiation Requisites’, *Journal of Business Research*, Vol. 12, No. 2, June 1984.
- [22] Huszagh, S.M. and Huszagh, F.W., ‘International Barter and Countertrade’, *International Marketing Review*, Vol. 3, No. 2, Summer, 1986.

large companies setting up trading arms to facilitate the process [23] [24]. The inward-outward interlink is further illustrated in the growth of international subcontracting which has played an important role in the international viability of many companies through the ability to tie in cheap component/raw materials imports from international suppliers – from clothing manufacture through to sophisticated systems selling [25] [26] [27]. From a general perspective therefore, it seems to be inappropriate to restrict the concept of increasing international involvement merely to the outward side, given the growing inward-outward interconnection.

Having put forward a working definition of 'internationalization' it should be stressed that once a company has embarked on the process, there is no inevitability about its continuance. In fact the evidence indicates that reverse of 'de-internationalization' can occur at any stage, as the example of Chrysler and other disinvestments in the late-1970s illustrate, but is particularly likely in the early stages of export development [28] [29].

So far the concept of 'internationalization' has been couched in relatively broad terms deliberately, to cover a multitude of possibilities. However, to apply the concept, considerable elaboration is required. For example, on what basis can we assess the degree of internationalization of one firm versus another? What does the concept mean as an outcome? Perhaps the simplest objective basis for assessing the degree of internationalization is some measure of foreign sales relative to total sales. The proportion of total sales exported has often been used as an indication of export performance despite its drawbacks [30]. Such a measure can also be extended out to the national economy as exports/gross domestic product. Although this measure is attractive because of its simplicity and measurability it provides very little information about the nature of and capacity to conduct international operations. Given the diversity of international operations, types of markets, degree of organizational commitment and types of international

[23] Dizard, J.W., 'The Explosion of International Barter', *Fortune*, Vol. 107, No. 3, February 7, 1983.

[24] Cohen, S.S. and Zysman, J., 'Countertrade, Offsets, Barter, and Buybacks', *California Management Review*, Vol. 28, No. 2, Winter 1986.

[25] Carstairs, R. and Welch, L.S., 'Australian Offshore Investment in Asia', *Management International Review*, Vol. 20, No. 4, 1980.

[26] Hornell, E. and Vahlne, J.-E., 'The Changing Structure of Swedish Multinational Companies', Working Paper 1982/12, Centre for International Business Studies, University of Uppsala.

[27] *Business Week*, 'The Hollow Corporation', March 3, 1986.

[28] Boddewynn, J.J., 'Foreign Divestment: Magnitude and Factors', *Journal of International Business Studies*, Vol. 10, Spring/Summer, 1979.

[29] Welch, L.S. and Wiedersheim-Paul, F., op. cit., 1980b.

[30] Cavusgil, S.T. and Godiwalla, Y.M., 'Decision-Making for International Marketing: A Comparative Review', *Management Decision*, Vol. 20, No. 4, 1982.

offering, there is obviously a need for a broader framework for assessing the extent of 'increased international involvement' – i.e. on a number of different dimensions. An example of such a framework is presented in Figure 1. In general internationalization can be expected to be associated with, and perhaps dependent upon, developments along each of the dimensions shown:

Operation Method (How)

Evidence indicates that as companies increase their level of international involvement there is a tendency for them to change the method/s by which they serve foreign markets [31] [32] [33]. The Nordic studies indicate that this change occurs in the direction of increasing commitment, a typical pattern being from no exporting, to exporting via an agent, to a sales subsidiary and finally to a production subsidiary. One of the reasons for the considerable attention on the operational method as a means of assessing a pattern of internationalization is that it does represent a clearly overt manifestation of the overall process.

As well as increasing commitment though, the pattern appears to be one of greater operational diversity as internationalization proceeds [34]. This appears to be related not only to the greater experience, skills, and knowledge of foreign markets and marketing which develops within the firm, but also to the exposure of a wider range of opportunities and threats. Sometimes the sheer success of one method of operation, for example exporting, causes the erection of import barriers by a foreign government thereby necessitating a shift to some other form such as licensing or foreign investment if a market presence is to be maintained. An Australian study found that outward foreign licensing was mainly adopted because of various constraints on the use of other, more preferred methods of operation in foreign markets [34]. The recent strong move by Japanese firms into foreign investment has been partly stimulated by the various forms of protection imposed in key markets [35] [36]. In a similar manner, the exploitation of market opportunities in the socialist countries, because of the emphasis of their governments on counter-trade, is likely to force some shift towards

[31] Johanson, J. and Wiedersheim-Paul, F., op. cit.

[32] Luostarinen, R., op. cit.

[33] Luostarinen, R., op. cit., pp. 105–124.

[34] Carstairs, R.T. and Welch, L.S., 'Licensing and the Internationalization of Smaller Companies: Some Australian Evidence', *Management International Review*, Vol. 22, No. 3, 1982, p. 35.

[35] Roscoe, B., 'Getting round protectionism by the direct route', *Far Eastern Economic Review*, June 13, 1985, pp. 82–3.

[36] Emmott, B., 'Japan: A Survey', *Economist*, December 7, 1985, pp. 26–30.

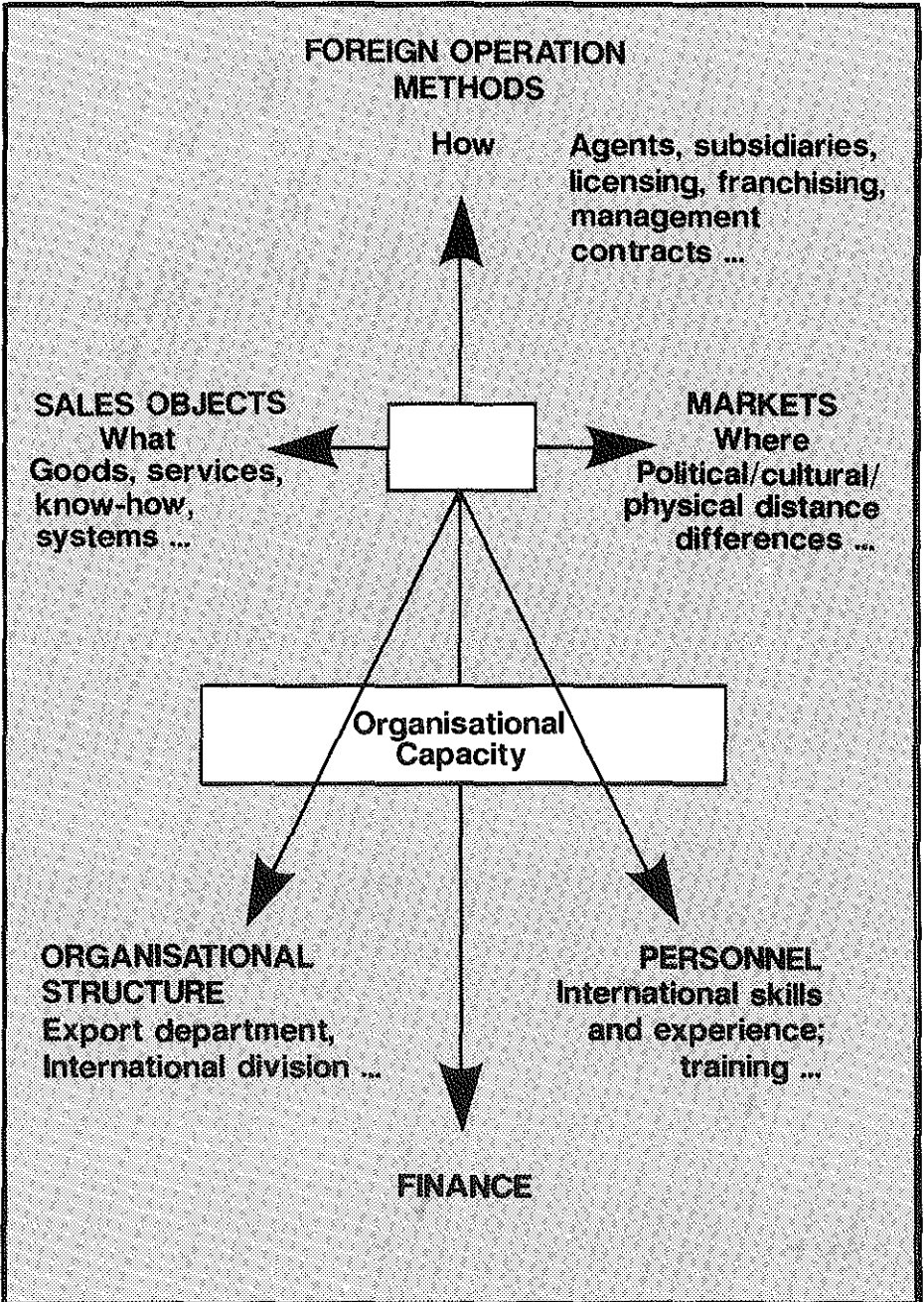


Figure 1. Dimensions of Internationalization

operational diversity. Clearly, the degree of market diversity has an impact on the degree of operational diversity.

Thus, on the method of operation dimension we would expect internationalization to be reflected in both increasing depth and diversity of operational methods. At a global level, this is evident not just in the growth of foreign investment but also in the rise of countertrade in its various guises, of the technology trade, of franchising, of management contracts and so on. It is difficult, if not impossible, to go far in the internationalization process simply by using one preferred operational method. One can perhaps argue that the future international success of companies will partly depend on their ability to master and successfully apply a range of methods of foreign operation.

Sales Objects (What)

As a company increases its involvement in international operations there is also a tendency for its offering to foreign markets to deepen and diversify [37]. This may occur at two levels:

- Expansion within an existing, or into a new, product line [38].
- Change in the whole product concept to include 'software' components such as services, technology, know-how, or some combination. Over time the blending of hardware and software components is often developed into more packaged forms, representing project or systems solutions [39].

Target Markets (Where)

As with sales objects and operation forms, it is difficult to develop internationally merely by concentrating on a limited number of countries. Expanded operations and offerings increasingly link with a wider range of foreign markets – typically more distant over time in political, cultural, economic and physical terms. There is a basic tendency for companies, particularly in the early stages of internationalization, to approach markets which appear simpler, more familiar and less costly to penetrate – and these are most commonly those which are closest in physical and cultural terms [40]

[37] Luostarinen, R., op. cit., pp. 95–105.

[38] Price Waterhouse Associates, *Successful Exporting*, Australian Government Publishing Service, Canberra, 1982, pp. 30–34.

[39] Hornell, E. and Vahlne, J.-E., op. cit. p. 8.

[40] Vahlne, J.-E. and Wiedersheim-Paul, F., 'Psychic Distance – An Inhibiting Factor in International Trade', Working Paper, 1977/2, Centre for International Business Studies, University of Uppsala, Sweden.

[41]. It is not uncommon for Australian firms to view operations in New Zealand as merely an extension of domestic activities, as also for Finnish firms moving into Sweden. A company's shift of activities to more 'distant' locations can therefore be seen as one indication of greater maturation in its internationalization process.

Organisational Capacity

The internationalization process of a company is perhaps most overtly demonstrated by the preceding three dimensions: the further advanced a firm is along them the more 'internationalized' it may be regarded as being. For example, a Finnish company with a high export/total sales ratio of say 80 per cent but which is selling only one product, via an agent, to one country, Sweden would be regarded, according to the above framework, as still being only in the earliest stages of international development.

Nevertheless, although providing a broader-based assessment of internationalization, the first three dimensions concentrate on the components of actual foreign market activity. Such an approach leaves aside the variety of internal company changes which are consequent upon, and therefore reflect, the degree of internationalization but also form the foundation for additional steps forward in the overall process [42]. In the resources area finance and personnel are obviously important, but so also is the organisation structure developed for handling foreign activities. In Figure 1, three of these areas – finance, personnel and organisation structure – are noted because of their importance, but they are by no means exclusively so.

Personnel

The success of internationalization in any company depends heavily on the type of people both initiating and carrying through the various steps in the process, and on overall personnel policies. Lorange [43] has recently argued that 'the human resource function is particularly critical to successful implementation of (such) co-operative ventures (joint ventures, licensing agreements, project co-operation, . . .)'. In the initial exporting phase the background of the decision-maker, in such areas as work and foreign experience, education and language training, has been shown to be potentially important in the preparedness to commit a firm to the exporting

[41] Luostarinen, R., *op. cit.*, pp. 124–172.

[42] Cavusgil, S.T. and Godiwalla, Y.M., *op. cit.*

[43] Lorange, P., 'Human Resource Management in Multinational Cooperative Ventures', *Human Resource Management*, Vol. 25, No. 1, Spring, 1986, p. 133.

activity [44] [45]. At a general level though, internationalization both feeds upon and contributes to the development of international knowledge, skills and experience of the people involved [46]. While learning-by-doing appears to be a key part of the whole process, it is also possible to obtain some assistance through effective training and recruitment policies. Tung [47], for example, concluded from a study of a number of US, European and Japanese companies that 'the more rigorous the selection and training procedures used, the less the incidences of poor performance or failure to work effectively in a foreign country.' Clearly, unless the people involved, through whatever means, become more international in their capacities and outlook, the ability to carry through any international strategy is bound to be severely constrained. International personnel development therefore remains as a prime indication of the internal extent to which a company has effectively become internationalized, although it is perhaps more difficult to measure than the preceding three dimensions.

Organisational Structure

As the administrative and organisational demands generally of carrying out international operations grow and diversify, the organisational structure for handling such demands ultimately needs to respond. A variety of formal and informal organisational arrangements have been used by companies in different countries to cope with the increasing amount and complexity of continuing internationalization [48] [49] [50]. The changes, and their sophistication, as the company seeks to improve the organisational mechanism and focus of international operations, provide a further signpost of the state of internationalization. Organisational changes are often a clear statement of commitment to the objectives of international involvement. In an Australian study the shift from experimental to committed exporting was often marked by the establishment of an export section or division in some form [51].

[44] Reid, S.D., 'The Decision-Maker and Export Entry and Expansion', *Journal of International Business Studies*, Vol. 12, Fall, 1981.

[45] Welch, L.S., 'Managerial Decision-Making: The Case of Export Involvement', *Scandinavian Journal of Materials Administration*, Vol. 9, No. 2, 1983.

[46] Johanson, J. and Vahlne, J.-E., op. cit.

[47] Tung, R.L., 'Selection and Training of U.S., European, and Japanese Multinationals', *California Management Review*, Vol. 25, No. 1, Fall 1982, p. 70.

[48] Stopford, J.M. and Wells, L.T., *Managing the Multinational Enterprise*, Basic Books, New York, 1972.

[49] Bartlett, C.A., 'Multinational Structural Change: Evolution Versus Reorganization', in L. Otterbeck (ed.), *The Management of Headquarters - Subsidiary Relationships in Multinational Corporations*, Gower, Aldershot, 1981.

[50] Hedlund, G., 'Organization In-Between', *Journal of International Business Studies*, Vol. 15, Fall, 1984.

[51] Welch, L.S. and Wiedersheim-Paul, F., op. cit., 1980b.

Finance

The growth of international operations inevitably also places increasing demands on the availability of funds to support the various activities. The nature and extent of the company's financing activities for international operations provide a further indicator of the degree of internationalization. We might expect that the range of finance sources (both local and international) and the sophistication of financing techniques would develop with international growth. However, the relationship is by no means clear-cut – depending on such aspects as the type of product/service, operation methods and payment method, as well as the extent of government support [52].

Framework Overview

By examining the above six dimensions it is possible to derive a substantial overview of the state of internationalization of a given company, which could then form the basis of comparison to others. It is not the intention at this stage to consider scales of measurement along the different dimensions, although work has already taken place in this area – as for example in Luostarinen's [53] composite of business distance (including cultural, economic and physical distance). At a general level though it is possible to foresee the development of more precise composite measures along the various dimensions, providing a better basis for relative assessment of the internationalization progress of different companies. For example, the hypothetical patterns for two companies are presented in Figure 2. Comparing the two patterns it is clear that company 1 has gone further than company 2 in its foreign market activities, yet its internal development to support these is less developed than company 2. Perhaps this is a sign of potential problems for company 1.

Patterns of Internationalization

From the discussion so far it is clear that there is a wide range of potential paths any firm might take in internationalization. Nevertheless, are there any consistent patterns observable from the research? In answering this question a major contribution has been made by Nordic researchers [54] [55]

[52] Price Waterhouse Associates, *op. cit.*, pp. 56–62.

[53] Luostarinen, R., *op. cit.*, p. 151.

[54] Johanson, J. and Wiedersheim-Paul, F., *op. cit.*

[55] Luostarinen, R., *op. cit.*

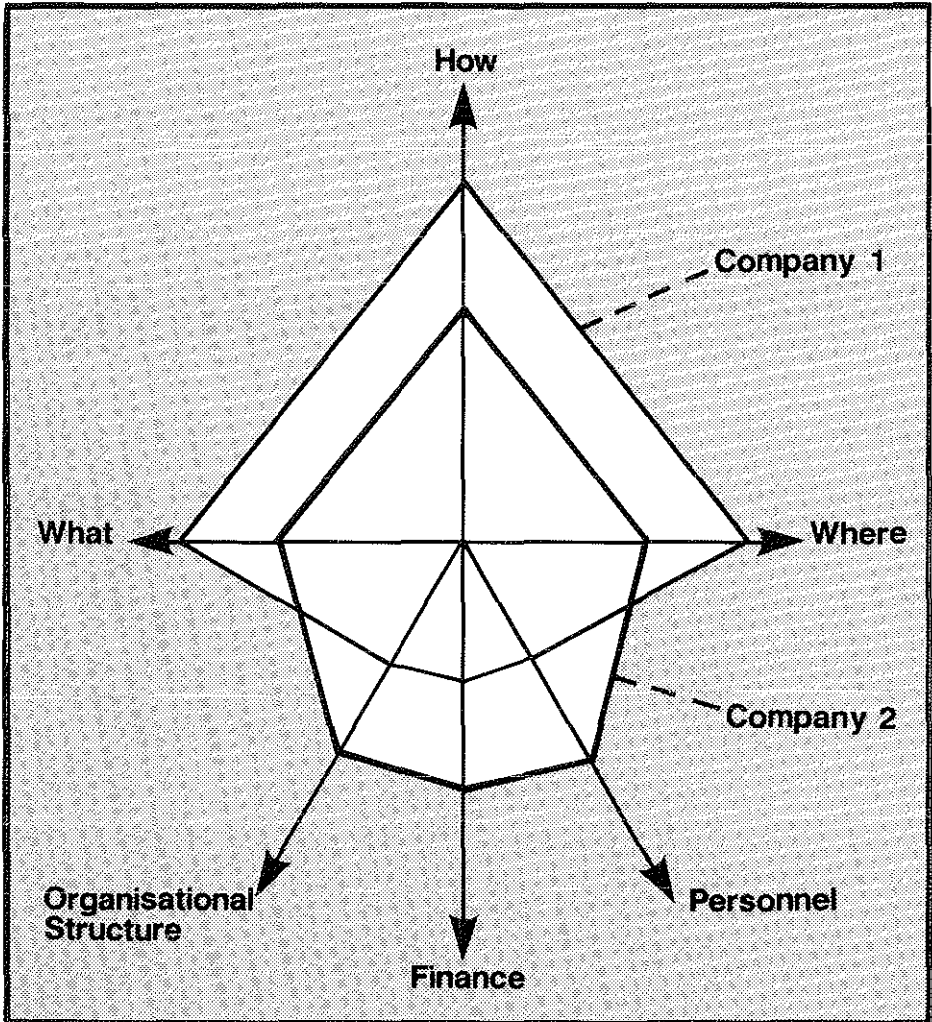


Figure 2. Hypothetical Company Comparison

[56]. Their work points generally to a process of evolutionary, sequential build-up of foreign commitments over time. Johanson and Wiedersheim-Paul studied the establishment chains of four large Swedish multinationals from the beginning of their operations. Typically the growth of foreign establishments was distinguished by a series of small, cumulative steps over

[56] Juul, M. and Walters, P., op. cit.

time: the setting-up of a sales subsidiary was preceded by an agency operation in about three-quarters of cases.

This general pattern of evolutionary development was perhaps most strongly confirmed in Finnish research. In a study of around three-quarters of the population of Finnish industrial companies with foreign operations of any type Luostarinen found that, in 1976, 65 per cent of the companies had only non-investment marketing operations abroad, 33 per cent had production operations abroad which had been preceded by non-investment marketing operations, whereas in only 2 per cent of the total had production operations abroad begun without preceding operations. This result has apparently continued, although being less pronounced, according to a more recent examination of the shift to foreign direct manufacturing investment during the period 1980–82 by Finnish companies [57]. In only 13 per cent of cases did the shift occur without preceding alternative operations in the country concerned.

Luostarinen's research revealed a process of evolutionary development not only in terms of the depth of operational mode, but also in terms of the diversity of modes used, as well as in product offerings and the range of markets penetrated. For example, product offerings were divided into four categories: goods, services, systems and know-how. The offering to foreign markets consistently began in the simplest form – i.e. goods (for 99 per cent of companies) – while sales of services, systems and know-how came later, and approximately in that order [58]. The gradual development towards systems or package selling has also been noted in the growth of Swedish multinational corporations where skills and knowledge (software) were added to the hardware sale until a more complete problem-solving package was on offer [59]. This trend has broader implications as a growing software/service component clearly places greater stress on effective communication skills and understanding of user needs and the user's environment, which is a more demanding exercise once cultural and other distance barriers have to be surmounted, thereby reinforcing the impact of such distance variables on internationalization.

Research in other countries, although differing in sample size, period of study and subject of analysis, nevertheless has revealed a degree of consistency with the results of Nordic research. In examining Japanese

[57] Larimo, J., 'The Foreign Direct Manufacturing Investment Behaviour of Finnish Companies', paper presented at the 11th European International Business Association Conference, Glasgow, December 15–17, 1985.

[58] Luostarinen, R., *op. cit.*, pp. 95–105.

[59] Horncll, E. and Vahine, J.-E., *op. cit.*, p. 8.

foreign investment in South-East Asia, Yoshihara [60] found that 'the pattern of investment seems to substantiate the evolutionary theory of foreign investment'. This echoes a similar conclusion drawn from a longitudinal study of American direct investment abroad [61]. Small sample studies of first time UK smaller firm direct investors and of Continental European direct investors in the UK have confirmed the pattern of intermediate steps being used as a build-up to foreign investment [62] [63]. While 15.4 per cent of cases involved a direct move to foreign investment, 'over half of these firms were prevented from exporting by the nature of their product – transport cost barriers or a high 'service' element effectively ruled out exporting as a means of servicing the foreign markets' [64].

The pattern is not completely consistent though as an Australian study of 228 outward direct investment cases revealed that in 39 per cent of these cases there was no pre-existing host country presence [65]. To some extent this can be explained by the high proportion (43.8 per cent) of service companies involved in the investment activity, given that it is often more difficult to operate with intermediate steps to the foreign investment stage in the services sector. However, service companies were only slightly under-represented (40.7 per cent) amongst those affiliates with a pre-existing presence [66]. Of particular note though is the fact that 65.5 per cent of the investments were undertaken during the period 1970–79. This is perhaps suggestive of a change in the rate at which firms have been accomplishing internationalization in more recent times, through leapfrogging of intermediate steps to the foreign investment stage in some countries. Further support for this development has been forthcoming in the more direct move to foreign investment by Swedish companies into the Japanese market from the early 1970s [67]. Perhaps a more general indication of the desire by

[60] Yoshihara, K., 'Determinants of Japanese Investment in South-East Asia', *International Social Science Journal*, Vol. 30, No. 2, 1978, p. 372.

[61] Wilkins, M., 1974, *op. cit.*, p. 414.

[62] Buckley, P.J., Newbould, G.D. and Thurwell, J., 'Going International – The Foreign Direct Investment Behaviour of Smaller U.K. Firms' in L.G. Mattsson and F. Wiedersheim-Paul, (eds), *Recent Research on the Internationalization of Business*, Acta Universitatis Upsaliensis, Uppsala, 1979.

[63] Buckley, P.J., Newbould, G.D. and Berkova, Z., 'Direct Investment in the U.K. by Smaller Continental European Firms', Working Paper, University of Bradford, 1981.

[64] Buckley, P.J., 'The Role of Exporting in the Market Servicing Policies of Multinational Manufacturing Enterprises', in M. Czinkota and G. Tesar (eds), *Export Management*, Praeger, New York, 1982, pp. 178–9.

[65] Bureau of Industry Economics, *Australian Direct Investment Abroad*, Australian Government Publishing Service, Canberra, 1984, p. 115.

[66] Bureau of Industry Economics, *op. cit.*, p. 128.

[67] Hedlund, G. and Kverneland, A., 'Are Establishments and Growth Strategies For Foreign Markets Changing?', paper presented at the 9th European International Business Association Conference, Oslo, December 18–20, 1983.

companies to short-circuit the process of gradually building-up activities in foreign markets over time has been the switch in foreign investment towards acquisition and away from greenfield ventures [68] [69] [70]. Acquisition is not only a path to more rapid establishment in a given foreign market, which has become a more important consideration in the light of stronger global competition, but it is also potentially a means of obtaining faster access to a developed international network. For example, when the Australian company Wormald International purchased Mather and Platt in the UK it obtained as well a network of subsidiaries in Europe, Japan, Brazil, South Africa and New Zealand. The managing director commented that to have built such a network from scratch would have taken 20–30 years [71] [72].

Of course, it should be expected that observed patterns of internationalization will vary from country to country, and over time, because of environmental differences at the outset, as well as the inevitable changes in the environment. A combination of the more competitive international environment of the 1980s and the general demonstration effects of other companies' increased international efforts from different national environments has probably contributed to a less cautious approach to internationalization, at least in the latter stages.

It should also be stressed that the concept of a sequential, cumulative process of internationalization does not necessarily mean some smooth, immutable path of development. The actual paths taken are often irregular. Commitments are frequently lumpy over time, with plateaux while previous moves are absorbed and consolidated. Particular steps are affected by the emergence of opportunities and/or threats which do not usually arrive in a continuous or controlled manner. The outcome tends to be derived from a mixture of deliberate and emergent strategies [73].

In fact, some of the argument which appears to be developing about the evolutionary or stages model of internationalization [74] seems to have occurred because of a lack of specification of what this process actually means for an individual company: does it mean evolution or a stepwise process for each individual foreign market or rather development of

[68] Hornell, E. and Vahlne, J.-E., *op. cit.*

[69] Larimo, J., *op. cit.*

[70] OECD, 'International Direct Investment: A Change in Pattern', *OECD Observer*, No. 112, September, 1981.

[71] Korporaal, G. *Yankee Dollars: Australian Investment in America*, Allen and Unwin, 1986, ch. 12.

[72] Department of Trade, 'Fire Protection firm sparks new sales in China, U.S.S.R.', *Overseas Trading*, Vol. 31, No. 10, 25 May, 1979, p. 345.

[73] Mintzberg, H. and McHugh, A., 'Strategy Formation in an Adhocracy', *Administrative Science Quarterly*, Vol. 30, June, 1985.

[74] Turnbull, P., *op. cit.*

involvement in an overall sense? So far concentration has been on the former situation where the number and type of steps up to, for example, foreign investment are considered. A reduction in, or absence of, intervening steps in a foreign market is taken as some indication that the evolutionary or stages model is not functioning [75]. Such a result is of course more likely in particular markets where unique circumstances might apply, perhaps in the form of government policy. More importantly though it is probably more appropriate to analyse the process of international involvement at the company level, looking across total foreign market activities. As skills, experience and knowledge in the use of a more advanced form of operations are developed in some foreign markets we might expect that this will eventually allow a company to leapfrog some intermediate steps in others [76]. This proposition is illustrated in Figure 3. Taken on its own, company X's move directly to foreign investment in Foreign Market No. 6 might be regarded as a shift away from the sequentialist pattern revealed in other markets. However, when taken in the overall context of the steps taken in other markets it is certainly far removed from a leap into the unknown. Thus, leapfrogging moves in given markets should be examined as part of the overall operational pattern of the company before any definitive conclusions can be drawn about a 'shift' from the evolutionary pattern.

Likewise the concept of what is evolutionary could be related back to the type of preceding experience of international operations that key individuals in the company might have had. For example an Australian company with four years of operating and marketing experience in a small Australian city (Toowoomba) considered its first 'export' move as an attempt to penetrate a large Australian city 130 kilometres away (Brisbane). By contrast a Sydney company was exporting within three months of beginning operations and to 52 countries in three years. The differences in behaviour were strongly related to the owner-managers of each company. In the Toowoomba example the individual had very limited personal or company experience beyond the local area, whereas in the second case the manager was a migrant with over 20 years of international experience in the industry concerned which had exposed an unexploited market niche. His perception of the market place was international in character from the outset. In this context, the international moves of the Sydney company were less startling than at first sight. One person's (or company's) evolution often appears as a revolution to others [77] [78].

[75] Hedlund, G. and Kverneland, A., op. cit.

[76] Buckley, P.J., op. cit.

[77] Welch, L.S. and Wiedersheim-Paul, F., 'Domestic Expansion: Internationalization At Home', *Essays in International Business*, No. 2, December 1980a.

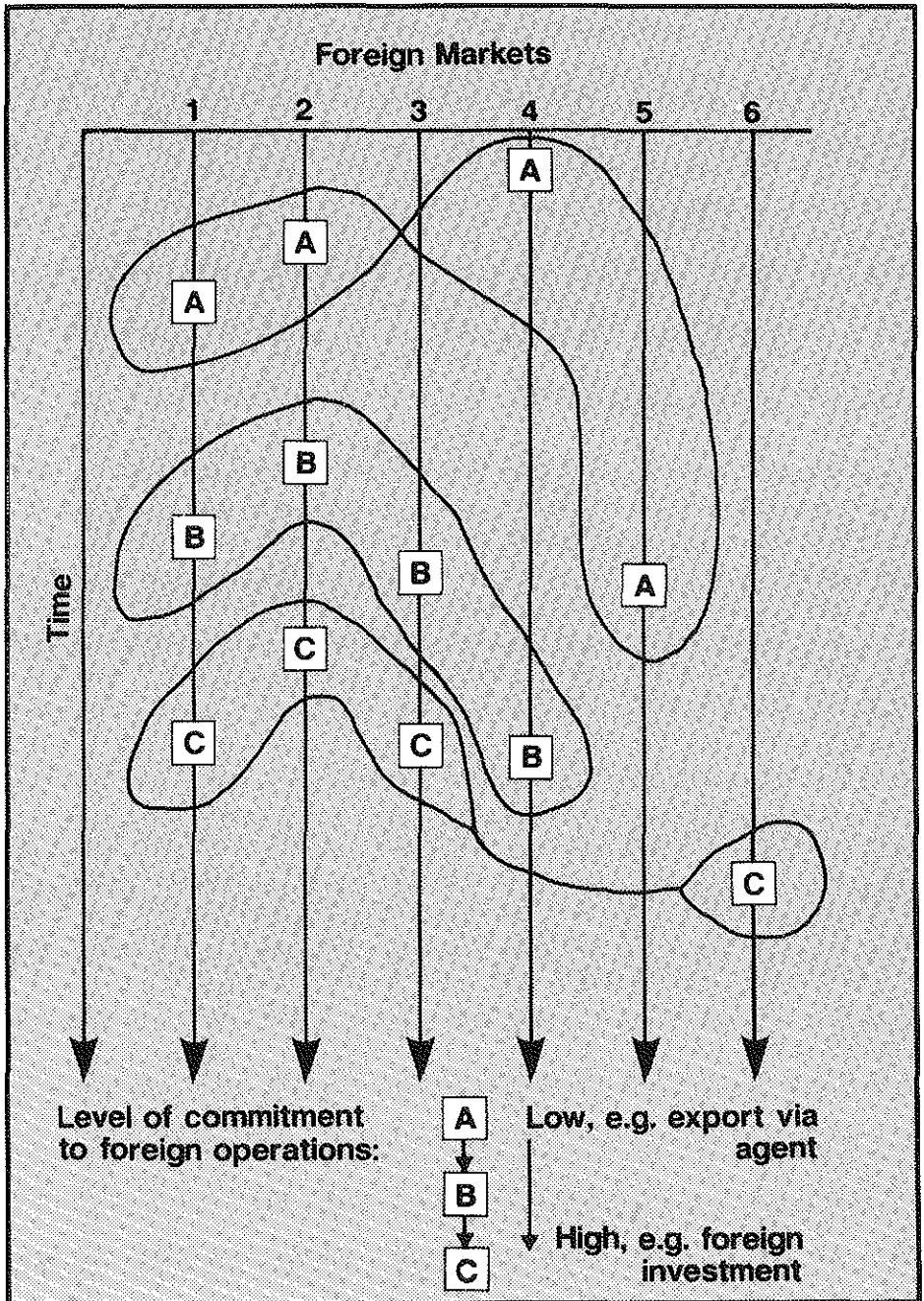


Figure 3. Company X – Foreign Operations

Overall then, the research has revealed a reasonable degree of consistency, at least up to the mid-1970s, that the pattern of internationalization for most firms has been marked by a sequential, stepwise process of development. More recently, limited evidence has been emerging of a departure from the gradualist path as some firms seek to by-pass the steps to deeper commitment, resulting in a speeding up of the whole process. Just how widespread the change is can only be determined from further research, but pattern variation should be expected in response to the many environmental changes, both nationally and globally, which have occurred in the 1970s and 1980s.

Why Internationalization?

While we can expect continued debate on the nature of the shifting pattern of internationalization, an important question remains to be settled: why internationalization? What is it that drives the process, leading a firm from little or no involvement to, in some cases, widespread multinational investments? Obviously, if we are to understand the process then we have to explain why a company undertakes each particular step in an overt pattern. As Starbuck [79] has noted, growth is not spontaneous, it is the result of decisions. As such, the separate analysis of these distinct steps contributes to our understanding of why and how the internationalization process is initiated and maintained. For example, the recent research on the export involvement decision has considerably elucidated how and why a company's internationalization begins, and what sort of base is established for subsequent forward moves, if any [80] [81] [82]. However, each of the decision points inevitably has a variety of unique causative elements as well as bearing the impact of any general on-going influential factors, as noted in Figure 4. In developing any overall explanation of internationalization it is important to examine those continuing influences which play such a key role in maintaining forward momentum – in building the company to the point where it is more receptive to the possibilities of increased involvement, and

[78] Layton, R. (ed.), 'Magna Alloys and Research Pty. Ltd.', *Australian Marketing Projects*, Halstead Press, Sydney, 1969.

[79] Starbuck, W.H., 'Organizational Growth and Development', in W.H. Starbuck (ed.), *Organizational Growth and Development*, Penguin, Harmondsworth, 1971.

[80] Welch, L.S. and Wiedersheim-Paul, F., op. cit., 1980b.

[81] Cavusgil, S.T., 'Organizational Characteristics Associated With Export Activity', *Journal of Management Studies*, Vol. 21, No. 1, Jan. 1984.

[82] Yaprak, A., 'An Empirical Study of the Differences Between Small Exporting and Non-Exporting US Firms', *International Marketing Review*, Vol. 2, No. 2, Summer, 1985.

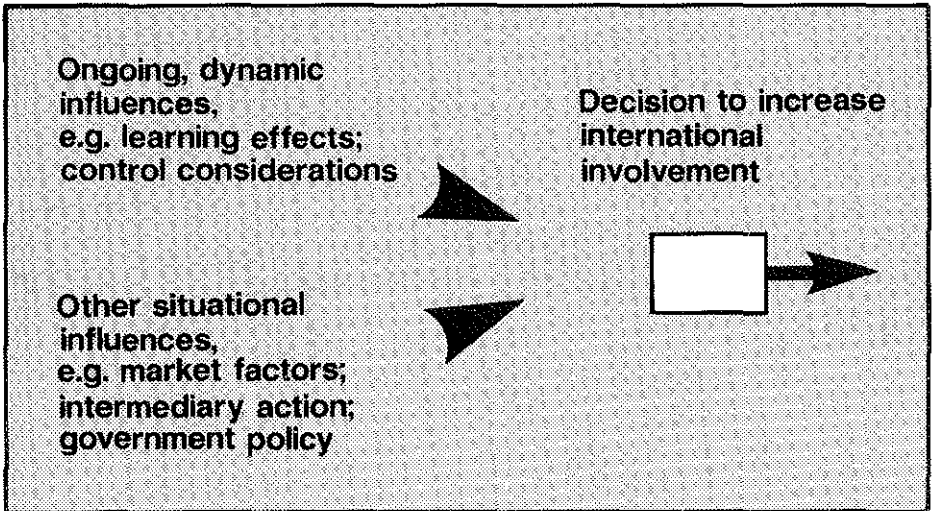


Figure 4. Determinants of Forward Momentum

better prepared to respond to them. These dynamic factors also help to explain why there is some degree of consistency of internationalization patterns across countries because of their general effect. At the same time they represent reasons why so many companies feel constrained to a more gradual, sequential path of development, as revealed in the research noted earlier.

Overall Pattern Explanatory Factors *Resources Availability*

The ability to undertake any form of international operations is clearly limited by the means accessible to the firm to carry it out. For smaller firms, given their limitations in many areas, this is an obvious reason why less demanding directions of international development can be undertaken first, with major commitments only occurring well into the longer run. By the same token, this means that we should expect larger firms, based in large domestic markets, to reveal more advanced involvement far earlier, and generally to move through the overall process at a faster rate. While there is some argument about the research results which consider the impact of size, there does not appear to be any clear relationship between size of firm and export performance [83] [84]. Instead of size, Czinkota and Johnston [85]

[83] Czinkota, M.R. and Johnston, W.J., 'Exporting: Does Sales Volume Make a Difference', *Journal of International Business Studies*, Vol. 14, Spring/Summer, 1983.

[84] Cavusgil, S.T., op. cit.

[85] Czinkota, M.R. and Johnston, W.J., op. cit., p. 153.

concluded that 'what really does seem to make for export success is the attitude of management'. Some of the constraints which face companies of whatever size, when considering international expansion, particularly financial ones, are sometimes more apparent than real. Outside financial sources and creative funding of takeovers, have been used by some companies to permit faster expansion than directly accessible means would imply [86]. While resource availability may limit expansion at any given point in time, the constraint is not static, so that any action or developments which widen availability provide the basis for increased foreign operations over time.

Knowledge Development

Clearly, there is something more to the resources question than just physical or financial capacity. A critical factor in the ability to carry out chosen international activities is the possession of appropriate knowledge: this includes knowledge about foreign markets, about techniques of foreign operation, about ways of doing business, about key people in buyer organisations, and so on. Such information and understanding is not easily, cheaply or rapidly acquired. Much of it is not readily acquired 'off-the-shelf' as it is developed through the actual experience of foreign operations [87]. The learning-by-doing process explains much in the evolutionary patterns of internationalization revealed in research [88].

Communication Networks

Personal contact and social interaction play an important part in the development of international markets – especially where more complex industrial products are concerned [89]. Networks between buyers and sellers which form the basis of effective communication must be established. Network establishment can be a demanding and time consuming process where the gap between buyer and seller is large due to an initial lack of knowledge of each other and is accentuated by physical and cultural distance barriers. There is considerable inertia amongst buyers who feel more secure with suppliers from familiar sources and locations. While this constrains the development of operations at the outset, the initial gaps are not necessarily static: they are susceptible to reduction over time. With wider experience,

[86] *Euromoney*, 'Elders IXL', Supplement, August, 1985.

[87] Johanson, J. and Vahlne, J.-E., op. cit.

[88] Carlson, S., *How Foreign Is Foreign Trade*, Acta Universitatis Upsaliensis, Uppsala, 1975.

[89] Hakansson, H. (ed.), *International Marketing and Purchasing of Industrial Goods*, John Wiley, Winchester, 1982.

greater contact at all levels and more diverse cultural exposure on both sides, there is a potential for deeper and more long-standing relationships to evolve, forming the basis for deeper commitments [90].

Risk and Uncertainty

As foreign buyers are loath to establish networks with unknown foreign suppliers at the outset so too the foreign suppliers, because of initial lack of knowledge and experience, tend to feel uncertainty about taking on additional or new foreign operations, especially in unfamiliar locations. Inevitably there is a response of seeking ways to reduce the uncertainty exposure. It is not surprising therefore to find the pattern noted earlier that companies are attracted to foreign operations first in more familiar (culturally) and closer locations and that only small steps in operational commitments are undertaken initially thereby limiting exposure. This also allows experimentation without high risk and the time required to gather relevant knowledge and experience, before any deeper commitment is contemplated.

In general therefore the need to develop relevant knowledge and skills and communication networks, as well as to reduce risk and uncertainty exposure, interact and play a key role at given points in constraining international moves. Over time, however, the inevitable changes in these areas consequent upon foreign activities also change the capacity of the company to contemplate and carry through more involving commitments [91].

Control

Given the limited foreign market knowledge and experience of many companies during the early stages of internationalization it is not surprising that they will often look to outside foreign intermediaries to assist in market penetration. With more experience, however, if a company's knowledge about a given market increases through active involvement, there is a tendency for it to scrutinise the activities of its foreign intermediary more closely, especially when sales potential has been proven by preceding operations. The concern about control is reflected in a variety of efforts to more closely direct the operations of the intermediary on its behalf. Sometimes this will result in 'positive' steps such as training or the provision of promotional materials. In other cases a more 'negative' approach will be adopted, leading to more stringent checks and guidelines. Under these

[90] Ford, D., 'The Development of Buyer-Seller Relationships in Industrial Markets', *European Journal of Marketing*, Vol. 14, 5/6, 1980.

[91] Johanson, J. and Vahlne, J.-E., op. cit.

changing circumstances, with the power positions being subtly reversed and the principal feeling less dependent on its foreign intermediary, it is not uncommon for dissatisfaction about perceived under-performance to grow. Ultimately, perhaps sparked by other developments, the principal may feel that the effective way of dealing with the 'problem' is for it to take over the running of the foreign operation itself, in some altered form. Inevitably this will mean increasing its commitment in the given foreign market. Thus, the control factor, interacting with knowledge development and risk perception, tends to be a growing influence over time which pushes a company towards increasing involvement in foreign operations. In general, increasing market control means increasing involvement and thereby greater cost and risk [92].

Commitment

As international operations are developed there is necessarily a commitment of resources, and by people, to the process. This commitment is particularly strong when key management staff are involved in developing the international strategy [93]. It creates a need for fulfilment and provides strong forward momentum whereby justification is sought in further operations and deeper involvement along the same line [94]. The commitment factor therefore represents a further dynamic driving force in the overall internationalization process.

The above factors taken together help to explain the continued forward momentum of the internationalization process of individual companies and also why the evolutionary pattern has been found in so many studies in different countries [95]. In essence, these factors, apart from any general market size and potential considerations, help us to understand why for example a given environmental change – such as protectionist action by a foreign government or a change in foreign investment rules – is unlikely to cause a shift to foreign investment by a company with limited foreign experience but is more likely to do so at a later stage after the development of market knowledge, contacts, a sales organization, etc., as illustrated in Figure 5.

Conclusion

Taken overall the concept of internationalization has yet to be clearly developed as a research object. Nevertheless, considerable progress has

[92] Luostarinen, R., op. cit., p. 117.

[93] Aharoni, Y., op. cit.

[94] Johanson, J. and Vahlne, J.-E., op. cit.

[95] Cavusgil, S.T. and Godiwalla, Y.M., op. cit.

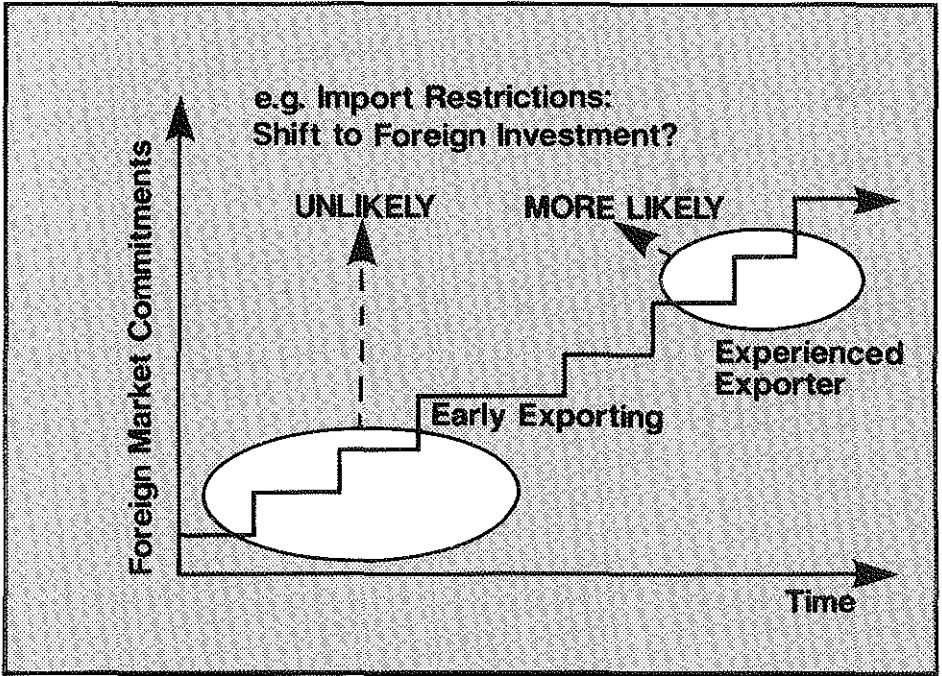


Figure 5. Response to Environmental Change

been made in establishing its conceptual and empirical foundations, while the emerging debate about the 'stages thesis' or 'gradual internationalization' can be considered a healthy step in clarifying the subject.

Given the focus of the concept, a development process through time, much research remains to be conducted that is responsive to its longitudinal character. Inevitably this is a difficult activity [96]: take for example the attempt to trace the impact of individuals and the evolution of communication patterns in the past. It can be expected however that research will continue along the dual lines of analysis of particular decisions or steps in the overall process and those elements which tie together total progress.

[96] Mintzberg, H. and McHugh, A., op. cit.