Chapter 1

Theoretical Framework of the Firm-Level Internationalisation in Business Studies

Krzysztof Wach
Cracow University of Economics, Poland

1.1. INTRODUCTORY REMARKS

Internationalisation itself as well as associated processes which contribute to its context may have different faces, dimensions, horizons, perspectives and levels. Thus, it would be not only pointless, but even impossible to give universal definitions of the ongoing processes. First of all, such ongoing processes like globalisation, semiglobalisation, internationalisation, transnationalisation, or Europeanisation should be always taken into consideration from a given point of view. Most authors distinguish these processes on three levels (Wach, 2014b), that is macro (economy), meso (industry) and micro (firm). Such a delimitation is essential to adopt an appropriate definition in a given research area (e.g. in relation to the economy for macroeconomics and in relation to a firm for management, business studies or microeconomics).

Internationalisation is as old as international trade dating back to ancient times, from the earliest civilizations (Daszkiewicz & Wach, 2012, p. 7), however the beginning of the systematic cross-border trading was marked in Europe in the Middle Ages (the Hanseatic League would be a good example). It is worth to accept a very broad understanding of business internationalisation by L.S. Welch and R. Luostarinen (1988, pp. 34-55), who define internationalisation as the process of increasing involvement in international business activities.

The objective of this study is to discuss and explore basic fundamentals of the internationalisation process of the firm. In order to meet this objective, the following specific goals were established. Firstly, to present modern theoretical approaches towards internationalisation. Secondly, to identify the basic external and internal factors influencing the firm-level internationalisation process. Thirdly, to explore the theoretical framework describing basic paths and patterns of the business
internationalisation. The study has an exploratory character, thus a literature review was applied as a main research method, supported by the observations and desk-research.

1.2. THEORETICAL APPROACHES TOWARDS BUSINESS INTERNATIONALISATION

The firm-level internationalisation research as a separate research field is dated back to 1950s and 1960s with its bloom in 1970s, whereas internationalisation was a theme of the macroeconomic and microeconomic research. D. Ricardo (1817) developed the classical trade theory based on the comparative advantage and earlier concept of absolute costs introduced by A. Smith (1976). Afterwards it was developed to the Heckscher-Ohlin model (Ohlin, 1967), which was based on the factor endowments in a particular region. M.V. Posner prepared the theoretical foundations for technology-gap trade theory based on foreign reaction lag and domestic reaction lag as well as learning period as the theory is based on two concepts, namely learning by doing and learning to learn. From the marketing point of view, the theory of product life cycle introduced by R. Vernon (1966) is especially important while discussing internationalisation issues. From the perspective of FDI, two theories are commonly cited, which are the concept of internalisation developed by P.J. Buckley and M. Casson (1976) as well as the OLI paradigm introduced by J.M. Dunning (1993; 2000). It can be assumed that internationalisation as a separate research field bloomed in 1970s, when stages models were introduced.

Although there are numerous proposals, concepts, models or theories of internationalisation of the firm, in the literature, there is a common agreement in principle on the major assumptions for systematics of the trends in the firm-level internationalisation modelling, however – for obvious reasons – there are some inconsistencies, because of the fact that some models can be classified in many ways, especially these aspiring to be considered holistic as to a lesser or greater extent they are based on earlier theories and models, assumptions of which can be easily seen.

N.E. Covello and A.McAuley (1999, pp. 223-256) distinguish three schools, which are supposed to be used to study the internationalisation of the firm, especially SMEs, namely:
– neoclassical school of foreign direct investment,
– behavioural school of stages models, as well as,
– network approach of the relational school.

B. Rundh (2001, pp. 319-320) distinguishes three approaches to analyse the internationalisation process of firms, particularly in relation to SMEs, which are:
– incremental approach based on various stages of internationalisation,
network approach, in which internationalisation is based on cooperation among firms operating in networks, as well as,

- business-and-strategic approach, in which internationalisation is described as a result of international growth due to the intended and realized business strategy.

K. Mejri and K. Umemoto (2010, pp. 157-159) distinguish two very broad trends, which include above mentioned models, and they are:
- process theories highlighting the increasing commitment to foreign markets with the passing of time and,
- adaptive concepts explaining the adaptation of corporate operations to the international environment.

M. Ruzzier, R.D. Hisrich and B. Antoncic (2006, pp. 478-489) propose one of the most extensive typology of approaches to internationalisation of firms, especially SMEs, pointing out four or five perspectives such as:
- process or stages models as well as innovation-based models (as a special subgroup of process models),
- network approach,
- resource-based view,
- international entrepreneurship theory.

J. Whitelock (2002, p. 342) discusses theories of internationalisation in four main groups, namely:
- the Uppsala model of internationalisation,
- the eclectic paradigm (OLI theory) and transaction costs,
- the industrial network approach (the interactive network approach of the International Marketing and Purchasing Group IMP),
- and last but not least, business strategy approach.

N. Daszkiewicz (2004, pp. 38-62) proposes the 5-group scheme of the internationalisation models, namely:
- stages models (including U-model, innovation-related models, models based on the learning process),
- resource-based view (including organisational life cycle models),
- intentions-based models,
- network approach,
- as well as other models.

Presented systematic approaches to analysis of the internationalisation process of the firm, especially small and medium-sized enterprises have a lot in common, however, they are in many aspects divergent. Taking into account the dominant features of the particular models and the prospect of the theory and practice of entrepreneurship (Wach, 2012a, pp. 94-131; Wach, 2012b, pp. 254-264;
Table 1.1. Typology of the modern theories of internationalisation of the firm

<table>
<thead>
<tr>
<th>Approaches</th>
<th>Models</th>
<th>Representatives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>L.H. Wortzel &amp; H.V. Wortzel (1981), M.R. Czinkota (1982), J.S. Lim,</td>
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<tr>
<td></td>
<td>Capabilities-based models,</td>
<td></td>
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<tr>
<td></td>
<td>Resources-and-Capabilities-based models</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Johanson &amp; F. Wiedersheim-Paul (2009)</td>
</tr>
<tr>
<td></td>
<td>models (GIEMs)</td>
<td>J.-E. Vahlne &amp; J. Johanson (2010)</td>
</tr>
<tr>
<td></td>
<td>International new ventures (INVs)</td>
<td>P.P. McDougall &amp; B.M. Oviatt (1994)</td>
</tr>
<tr>
<td>Managerial and strategic approach</td>
<td>Strategies-based models</td>
<td>J. Bell, D. Crick &amp; S. Young S. (2004), B. Hagen, A. Zucchella, P. Cerchiello &amp;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N. De Giovanni (2012)</td>
</tr>
<tr>
<td></td>
<td>Decision-making models</td>
<td>R. Schweizer (2011)</td>
</tr>
<tr>
<td>Integrative approach (Protoholistic</td>
<td>General holistic models</td>
<td>R. Flecher (2001), J. Bell, S. McNaughton, S. Young &amp; D. Crick (2003), H.</td>
</tr>
<tr>
<td></td>
<td>internationalisation</td>
<td></td>
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</tbody>
</table>

Wach, 2014e), the 7-current authorial typology can be tempted to be assumed and promoted (Table 1.1).

The latest update of Uppsala model of 2014 (Figure 1.1) tries to involve all the previous approaches including the network approach, the international entrepreneurship theory, high-tech and innovation approach, which are linked altogether as the extended resource-based view, which is placed in the model as the variables called operational capability and dynamic capabilities. The learning process and knowledge-based models are expressed in the variable organisational processes. J.-E. Vahlne and I. Ivarsson (2014, p. 227-247) build their model on the basis of the original U-model from 1970s (Johanson, Vahlne, 1977) and its three consecutive modifications incorporating the network approach (Johanson, Vahlne, 2009), the international entrepreneurship theory (Schweizer, Vahlne & Johanson, 2010), as well as the multinational coordination of networks (Vahlne & Johanson, 2013).

![Diagram of Uppsala Model](image)

**Figure 1.1.** The Uppsala globalisation process model of 2014

### 1.3. INTERNAL AND EXTERNAL FACTORS OF THE FIRM-LEVEL INTERNATIONALISATION

#### Motives for Going International

S. Hollensen (2007, p. 49) writes about internal triggers and external triggers. G. Albaum *et al.* (1994, p. 31) distinguish reactive and proactive motives, however later expanded into four-element matrix using also internal and external factors...
(Albaum et al., 2002, p. 40). W. Nowiński and E. Bakinowska (2012, p. 163) analyse push factors as entrepreneur/manager-related and firm-related push factors, whereas they analyse market-related, technology-related and institutional-related pull factors. J.H. Dunning (on the basis of early-1970s taxonomy of J. Bergman) promote four motives, namely natural resource seeking, market seeking, efficiency seeking as well as strategic assets or capabilities seeking (Dunning & Lundan, 2008, p. 67). According to OECD (1997) reports four factors should be taken into special consideration, which are **pull factor, push factor, chance factor and entrepreneurial factor** (This typology will *nota bene* be applied in the survey and the research questionnaire.).

The factors influencing the firm-level internationalisation process have different nature, character and impact. Firstly, they can be classified as internal factors (being in the firm) being elaborated especially in the resource-based view and the international entrepreneurship theory and external factors (being created in the external business environment), which are under special consideration of marketing-based view as well as the international entrepreneurship theory.

**External Factors: General Environment**

There are of course different levels and different dimensions of the external business environment.

![Figure 1.2. Dimensions of general external environment of businesses](source: own study)
We can research the business environment from local to truly global level (Figure 1.2) as well as taking into consideration different aspects from the basic four elements of PEST taxonomy to 7 basic elements of PLESCET categorisation (Table 1.1).

**Table 1.1. Dimensions and layers of the international business environment**

<table>
<thead>
<tr>
<th>Layers and dimensions</th>
<th>Local community</th>
<th>Country</th>
<th>Region of the World</th>
<th>Globe (worldwide)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural and social</td>
<td>Families; local customs, schools; urban or rural</td>
<td>National culture; language; sense of shared history</td>
<td>Cultural affinity across the region; movement of people between countries</td>
<td>Human rights; world religions; consumer culture</td>
</tr>
<tr>
<td>Economic</td>
<td>Local businesses; predominant industries</td>
<td>National industries; industrial structure; national income and economic growth</td>
<td>Degree of economic integration; regional trade relations</td>
<td>Global economic integration; WTO and multilateral trade agreements; global companies and industries</td>
</tr>
<tr>
<td>Political</td>
<td>Local government and politics</td>
<td>Political system; degree of civil and political freedom</td>
<td>Degree of political cooperation; shared institutions (e.g. EU)</td>
<td>International governmental cooperation (e.g. UN)</td>
</tr>
<tr>
<td>Legal</td>
<td>Delegated law-making; planning; health and safety</td>
<td>Rule of law; independent juridical and court system; national legislation</td>
<td>Cross-border research ties; cooperation among universities</td>
<td>International law and the International Court of Justice (ICJ)</td>
</tr>
<tr>
<td>Technological</td>
<td>Schools and colleges; research centres</td>
<td>National school system; universities; government funding for R&amp;D</td>
<td>Cross-border research ties; cooperation among universities</td>
<td>Global spread of breakthrough technology; global R&amp;D networks</td>
</tr>
<tr>
<td>Financial</td>
<td>Penetration of banks and financial services</td>
<td>National financial system; regulatory system</td>
<td>Cross-border financial flows; regional regulations (e.g. EBC)</td>
<td>Global financial flows; international institutions (e.g. IMF, World Bank)</td>
</tr>
<tr>
<td>Ecological</td>
<td>Ecosystems; pollution levels; air quality</td>
<td>Areas of environmental stress; environmental protection laws</td>
<td>Regional institutions; cooperation over regional resources (e.g. rivers)</td>
<td>Climate change; international cooperation on emissions reduction</td>
</tr>
</tbody>
</table>

Source: (Morrison, 2011, p. 31).

J. Morrison (2011, pp. 11-13) pays the attention to the concept of shareholders, which is very popular in management and business studies (Figure 1.3).
All categories of shareholders (internal and external) affect the internationalisation process of the firm, regardless their original localisation (home country shareholders, foreign shareholders).

![Figure 1.3. Domestic and international shareholders of the internationalised firm](image)

Source: adapted from (Morrison, 2011, p. 12).

**External Factors: Industry-Related Factors**

Industry-related factors (meso level) are also very crucial for the internationalisation process, apart from the general environment (macro), which is usually analysed separately as home country environment (domestic environment) and host country environment (international environment). R.M. Grant (2005, p. 412) elaborates on different factors causing the industry to become internationalised, mentioning four categories of industry internationalisation (Wach, 2014b). C.A. Solberg (1997, p. 11) underlines that **globality** (as he names it) or **globalism** (as sometimes it is called in the literature) impacts the decision whether the firm internationalises or not. The globality means more or less the sensitivity of the industry towards internationalisation (e.g. local kiosk is definitively local and high-tech companies are definitively sensitive to internationalisation or even globalisation).

Industry-related factors include also competitiveness, especially the firm-level **international competitiveness** (Wach, 2014c) and **innovation**, especially innovative processes and the level of innovativeness of the firm (Vahlne & Johanson, 2012; O’Cass & Weerawardena, 2008), as these two features are indispensable and prerequisite conditions to be successful in international business.
Internal Factors: Resource-and-Capabilities-Based-Review

Internal resources play a crucial role in the firm-level internationalisation process. The resource-based view is one of the leading approaches towards internationalisation research. The resourced-based view was later expanded of capabilities as resources sensu largo and nowadays it is impossible to discuss RVB of the firm-level internationalisation without elaborating capabilities. The traditional approach in management points out the following types of resources, namely physical resources, human resources, organisational resources and (Barney, 1991, p. 191) as well as financial resources, informational resources and technological resources (Stonehouse, Hamil, Cambell & Purdie, 2004, pp. 37-38). S. Forsman (2001) distinguishes (i) individual resources, (ii) capabilities, (iii) core competences and (iv) knowledge. In the modern knowledge-based and entrepreneurial economy, the traditional tangible resources give their place to intangible assets and entrepreneurial capabilities (Fahy, 2000, p. 98). RBV allows to look insight the internationalisation process from a very diverse perspective of internal forces or driver (Barney, 2001).

The international entrepreneurship theory focuses on the role of the entrepreneur in the process of the internationalisation (Wach & Wehrmann, 2014), his or her sex, age, but also international orientation as well as entrepreneurial skills and capabilities. The role of top management team (Jiménez-Burillo & Jiménez- Moreno, 2013) seems to be fundamental for taking appreciate decisions in the process of internationalisation.

Constellation of Internationalisation Factors

S. Hollensen (2007, pp. 297-298) suggests a more complex model of entry mode choice taking into account four determinant groups of decision-making, namely:

- internal factors associated with the firm, including the product and its advantage as a subgroup of these factors,
- external factors dealing with the environment of the host country, as well as the home country,
- specific characteristics of different entry modes,
- transaction-specific factors.

In total, Hollensen distinguishes 16 different determinants, which have bipolar impact on the process of internationalisation, that is increasing (+) or decreasing (−) the intensity of internationalisation (the latter increase the externalisation at the same time).

J. Whitelock (2002), as mentioned above, tries to link five different perspectives (U-model, OLI theory and transactional costs theory, IMP concept of networking as well as business strategy approach), which lead her to build their own model based on the constellation of internationalisation factors in three groups (Figure 1.4): firn-
related factors, market-related factors and last but not least economic efficiency and managerial factors. These twelve specific factors influence the decision of the firm whether it goes international and if yes, which entry modes should be used.

1.4. PATTERNS OF THE FIRM-LEVEL INTERNATIONALISATION

The firm-level internationalisation process is expressed in various paths, pathways, trajectories or patterns. O. Kuivalainen, S. Sundqvist & S. Saarenko (2012, p. 450) while elaborating upon patterns of internationalisation based on a thorough literature review, they focus on three patterns, which are scope, scale and time (Zahra & George, 2002). The latter is associated with traditional versus rapid internationalisation.

Nevertheless, as we believe there are four features which are in the centre of research in this field, namely:

- entry mode (exporting, contractual or investing modes),
- entry scope (territorial scope as well as market concentration vs. diversification),
- entry pace (time or moment of internationalisation: slow, rapid or born global),
- and entry strategy (different approaches towards rivalry and international business strategy).

![Figure 1.4. Factors affecting internationalisation process according to J. Whitelock. Source: adapted from (Whitelock, 2002, p. 346).](image-url)
Entry Modes

The choice of entry modes (internationalisation methods, forms, instruments or ways) depends on both endogenous factors (mainly business potential) as well as exogenous factors (describing the business position in the target market or the industry in which the firm operates). The maturity for internationalisation of activities plays a crucial role while deciding on the entry mode. The different forms of entry into foreign markets have different efficiency, but also a variety of input costs. It seems that the most common taxonomy distinguishes three fundamental groups, namely: exporting modes; contractual modes; investment modes (Figure 1.5).

Figure 1.5. Types of entry modes
Source: own study.

Entry scope

The entry scope has been one of the oldest research theme while explaining the firm-level internationalisation process, and initially the scope was analysed as concentration vs. diversification (Ayal & Zif, 1978). The scope is included in most of
the measures of the degree of internationalisation (Kuivalainen, Sundqvist & Saarenko, 2012, p. 450).

Usually small and medium-sized enterprises or in general firms at the early process of internationalisation, prefer to expand into neighbouring markets, where the psychic distances is close (Johanson & Vahlne, 1977). Taking that assumption, V4 markets seems to be important for SMEs from these four Visegrad countries. Under the conditions of Europeanisation and integration processes, the EU-28 markets are very important, as the most important trade relations are met within the EU (Wach, 2014a). Operating on global markets is in most cases typical for transnational, multinational or global companies (Vahlne & Ivarsson, 2014).

**Entry pace**

Since mid-1990s the two discrete ways of the firm-level internationalisation exist parallely in the literature (Daszkiewicz & Wach, 2012, p. 71), which are international-by-stage (Johanson & Vahlne, 1977) as well as international at founding (Oviatt & McDougall, 1994). Traditional gradual or incremental internationalisation based on particular stages (stepwise) is one of the two antagonistic paths. On the contrary, there is a born global (BG) model, or three other paths of international new ventures (Oviatt & McDougall, 1994). In this book, we accept 3 years as the borderline (the popular in the literature) separating the traditional from the early and rapid internationalisation (Knight, Madsen & Servais, 2004, p. 649; Moen, 2002, p. 15; Wach, 2014d). What is more, J. Bell et al. (2003) discovered the born-again globals and in the emerging markets the concept of born regional is also very popular (Hashai, Almor, 2004; Lopez, Kundu, Ciravegna, 2009).

**Entry strategy**

There is a wide narrative in the literature on international strategies, especially from the market-based perspective and business strategy approach (Wach & Wojciechowski, 2012; Daszkiewicz & Wach, 2012, pp. 40-62). M.E. Porter (1985) analyses offensive and defensive generic strategies as well as three types of competitive strategies, which are differentiation, overall cost leadership and focus (Porter, 1980). P. Drucker (1985, pp. 9-25) points out seven entrepreneurial strategies. All of the above mentioned strategies can be applied while discussing the firm-level internationalisation process.

However, there are many peculiar aspects of international strategies, like standardisation versus adaptation (Horská et al., 2007; Horská et al., 2014). H.V. Permuter and his associates propose a model path of **EPRG strategies** (Wind, Douglas & Perlmutter, 1973; Heenan & Perlmutter, 1979; Wach & Wojciechowski, 2012), which will be applied in the empirical research (a questionnaire) in this book.
Ch. A. Bartlett and S. Goshal (1989) discuss four types of model integration in international markets, namely an international company, a multinational enterprise (MNE), a transnational company (TNC) as well as a global firm. These four basic coordination mechanisms can be supported by one more (Figure 1.6). The integration and coordination of business operations in different international markets is very important for the internationalised firms.

![Coordination Mechanisms Diagram](image)

**Figure 1.6. Different ways of coordinating supranational production networks**

Source: partially based on (Gareffi et al., 2005), extended by (Dicken, 2011, p. 150).

R. de Wit and R. Meyer (2010, pp. 8-9) notice that there are four levels of the strategy, one of them is the network level. There are different types of network that enable firms, especially small businesses to take use of the partner’s knowledge while internationalising (Johanson, Vahlne, 2009). The firms can cooperate in both formal and informal international networks (Daszkiewicz & Wach, 2012, pp. 77-89). P. Dicken (2011) mentions that three main functional formal networks are met in the modern global economy, which are research-orientated collaboration, technology-orientated collaboration as well as market-orientated collaboration (Figure 1.7). As a result of knowledge and experience sharing within the formal network or at least informal partnership, the acceleration of the internationalisation of the firm takes place. J. Johanson and J.-E. Vahlne (2009) prove that the networking helps in the ‘recognition of opportunities to the knowledge’ (as they call it), especially in the internationalisation process. What is more, currently almost each firm, especially the internationalised one, is just embedded in the global active network consisting of different interdependent organisations.
1.5. CONCLUSIONS

The chapter presents only the basics of the internationalisation research. Their selection was determined by the research topic undertaken in the research project and applied in the questionnaire during the empirical survey phase. The various theoretical approaches, from stages models to holistic models, have become the foundations for the research framework, which includes entry triggers (motives why firms go international), internal or inter-organisational factors based on the resource-based view, industry-related factors as one of the most important from the external business environment factors. These three factors impact the patterns of pathways of the firm-level internationalisation, which are entry mode, entry scope, entry pace and entry strategy. The theoretical foundations presented in here, will be applied into the pragmatic way in the research model and the questionnaire (see chapter 2).

REFERENCES


