

# Internationalisation of the firm – a theoretical review with implications for business network research

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By

Jan-Åke Törnroos  
Åbo Akademi University  
Dept. of Business Administration  
Henriksgatan 7  
20500 ÅBO-FINLAND  
phone: +358-2-2153266  
fax: +358-2-2154806  
email: [jtornroo@abo.fi](mailto:jtornroo@abo.fi)

## *ABSTRACT*

In the contemporary world we can experience rapid changes in the business environment of firms. This has caused a plethora of different managerial perspectives and buzzwords to emerge (JIT-management, CRM - Customer relationship management, Global business, KAM - Key account management, BPR - Business process re-engineering etc.). The world has, indeed, changed during the last decades in many respects. The New Europe is taking shape through changes inside the European Union followed by a bundle of countries in the process of joining in. The former Eastern European block is transforming into market economy with the Visegrád countries and Estonia in the lead. China is opening up gradually for international business and trade, speeding up through Chinas inclusion as a member into the WTO in November 2001.

These factors are some key aspects in framing the international possibilities and constraints for internationalisation of firms. This paper explores the theory of internationalisation and gives in the end some tentative views concerning research relating to internationalisation with specific reference to business network approaches.

## INTRODUCTION

Internationalisation is one of the taken-for-granted realities of contemporary business. It has been around us since the Phoenicians and accelerated during the colonial era and has really taken off as a corporate phenomenon after the Second World War. In a sense internationalisation is therefore nothing new. The theory of the internationalisation of the firm is fairly recent. This has many underlying reasons. The ‘possibility-structure’ of firms and the rise of multinationals as well as the internationalisation of small firms due to technological change, deregulation of markets and political changes has enabled a new world order (Castells 1996, Dicken 1998, Ohmae 1995).

Theory of the internationalisation of the firm has been developed mainly from around 1960 to the present (see e.g. Hymer 1960 (1976), Björkman & Forsgren 1997, Buckley & Ghauri 1999). In the beginning of the period economic perspectives were predominant in developing the basis for the theory of the internationalisation of the firm. Thereafter more behavioural perspectives were emphasised and later on more eclectic models as well as network perspectives on internationalisation has been articulated. The final “stage” in internationalisation deals with the rise of global firms and the existence of so called “Born Globals” (Madsen & Servais 1997).

The objective of this paper is to give an overview of internationalisation theory from the 1960s to the present with suggestions and implications for further research especially through a network-perspective.

The paper is a conceptual overview of the theory of the internationalisation of the firm. It does not present any empirical results or statistical data. A network perspective forms a background for the analysis; this concerns especially the final part of the paper when evaluating possible research avenues. The theoretical section is general to its nature. Multinational corporations are defined here as firms who have direct investments and trade in at least two countries (see e.g. Dicken 1998). The main emphasis is laid upon the basic underlying theoretical standpoints and theoretical models of the internationalisation of the firm. Different operation modes are not treated at length. Also how multinational and global corporations are managed are left aside of this review.

Based on a division of internationalisation theories the paper is structured mainly as follows:

1. First steps in developing internationalisation theories/the antecedents
2. The “Nordic schools of internationalisation”
3. An eclectic approach to internationalisation theory
4. Contemporary process perspectives including the network approach concerning internationalisation of SMEs
5. Implications for research

## INTERNATIONALISATION THEORY – SOME ANTECEDENTS

Internationalisation of the firm from a theoretical standpoint usually tries to give answers to questions about *why*, *when*, *where* and *how* firms engage themselves in international business? The first question is the most studied, but it is closely connected to the other basic questions. We shall follow these questions here as well but concentrate on how the *why* question has been treated theoretically over time.

The theory of the internationalisation of the firm can be started from taking the perspective from the 1960s. At this point we still experienced a post-war boom in many Western economies. Industrial growth was prevailing and the Marshall aid from the United States had set the European economic landscape in motion after the Second World War. This concerned especially West Germany, which at the time had gone through an exceptional industrial growth. The EEC was a first step towards European economic integration. West Germany and later the unified Germany has played a leading role as an industrial engine of Western Europe. At this point national governance mechanisms still dominated the rules of the game for economic transactions between nations. The Cold War also did cast its' spell over Europe which definitely formed an obstacle for managing and doing international business. At this point we also could look at world trade and investment in a more consistent manner than before due to more advanced trade statistics. This has been noted by Dunning through the following citation; "... taking advantage of much improved statistical data, the 1960s saw the first real attempts to explain trade patterns as they were, rather than as might be" (Dunning 1995, 251).

Theoretically the scene of theory in business administration was at that time dominated by economic-based theories and models. In business administration general economic theories (at least partially) were often used in order to understand how to manage business firms as well. Concerning marketing theory this holds very well (see e.g. Sheth. et.al. 1988). Usually classical economic "drivers" have been used in order to develop theories of internationalisation from this point of view.

Economic logic and theory could according to this basic perspective – mainly understand underlying reasons for firms to enter international markets. The theory of the growth of the firm (Penrose 1959), the internalisation theory (Hymer 1960 (1976)) and the product life cycle approach (PLC) (Vernon 1966, 1979) formed three main streams in this vein. All these approaches were trying to use economic modelling and reasoning in order to understand why firms started to internationalise their operations. The most "classically economic" being Vernon's PLC-model for international trade and investments. Penrose's model has also many perspectives taken from the behavioural theory concerning decision-making. Her theoretical reasoning concerning growth has inspired many researchers within internationalisation theory (e.g. Luostarinen 1979, Buckley 1988). The book by Penrose does not explicitly take the international dimension into account, but the theory presented can be used in such a setting.

Corporate growth, new market opportunities, internalisation and vertical integration were seen as being main driving forces for internationalisation. Rational decision-making, "the Economic-man perspective" and classical types of markets constituted the world of theory in this type of reasoning.

Penrose in her seminal book (Penrose 1959) studies the growth of the firm that forms a basic source (see also e.g. Luostarinen 1980, Buckley 1999). The theory of the growth of the firm draws on industrial economics, international economics, the theory of finance and the economics of location. (Buckley & Casson 1976). According to Buckley (1999) the role of management is central in this process. He takes up the following points concerning this role in understanding the growth of the firm:

- The availability of managerial skills and their successful absorption
- The minimisation of transaction costs
- The optimum size scale of production plants in operations in individual locations
- State of technology and the existence of entry barriers
- The availability of finance
- Organisational issues and the balance between control and co-operation.

Rugman et. al. (1986) presents a general model for the multinational corporation through two sets of variables. These can form a basic – mainly economic – perspective for MNCs

<b>Environmental</b>	<b>Company</b>
Country-specific Location specific	Firm-specific Ownership specific
National aggregate production function (Labour, Technology, Management) + political-cultural system & government	Special advantages of MNCs <ul style="list-style-type: none"> <li>• Knowledge</li> <li>• Management</li> <li>• R &amp; D skills</li> <li>• Strategic planning skills</li> </ul>

Fig. 1. Two sets of variables in a model of the MNE  
Source: Rugman et.al. 1986.

*Theory of the growth of the firm as an explaining variable*

Luostarinen (1979) uses the basic constituents of Penrose and her perspectives on growth as one main reason for internationalisation of the firm. One way for the firm is to seek growth through internationalisation. This is the case with countries like Finland, being a small and open economy where the markets (both for inputs and markets) can be found abroad. The Finnish paper industry is a good case in point, which started with international operations from the start in the early 1900s due to existing overseas markets and small local and national markets (see also Luostarinen 1979, Björkman 1990). This follows quite neatly also the discussion and the model presented by Rugman et.al. (1986).

Growth of the firm relates both to external as well as to internal factors of the firm and the managing of these two in a successful manner. This holds especially when the world is somewhat predictable and stable having national entities and steering mechanisms. This was to a great extent still the case in the 1960s. Growth is still a core perspective in creating an understanding for why firms internationalise their activities. Growth could be obtained through internationalising the firm and capturing new market possibilities, or in the terms of Penrose, through finding new ‘productive opportunities’.

### *Internalisation and internationalisation*

Lets now move more inside the firm and try to find a perspective on internationalisation from internal control and economic governance of the firm. S. Hymer in the U.S. through his PhD thesis took the first perspective concerning this into the fore in 1960 (published in 1976). The attempt was to explain the growth and composition of foreign direct investment, or of production financed by such investment. A specific attempt is to study *distinctive features of FDI in terms of ownership advantages* of foreign firms. This perspective was the main theme in S. Hymer's work and formed an internalisation perspective as a rationale for the existence of the MNC.

Internalisation theories are also dealt with e.g. in Buckley & Casson 1976, Buckley & Casson 1985, Buckley 1988). Buckley & Ghauri still postulate in the foreword in the book “Internationalization of the firm. A reader” that “The dominant paradigm in research on the multinational firm is the internalization approach” (Buckley & Ghauri 1999, xi). Why, then, do firm internalise their operations? The basic reason according to Dunning (1995) is the existence of imperfect markets. Market imperfections may be structural as well as cognitive. Uncertainty over future markets forms a cognitive reason and government policies form a structural variable. Reasons for internalising activities within the MNC are at least the following reasons<sup>1</sup>:

1. Both to generate innovations and ideas and to retain exclusive right to their use (inside the control of the firm)(Dunning 1995)
2. The desire to minimise risk and/or cost of fluctuating exchange rates; to cushion the adverse effects of government legislation or policy, for example in respect to dividend remittances; to be able to take advantage of differential interest rates and “leads” and “lags” in intra-group payments. (Rugman 1980)
3. To avoid intervention from public policy makers in the allocation of resources

“It can be concluded, therefore, that the ownership advantages of firms stem from their exclusive possession and use of certain kind of assets. Very often firms acquire these rights by internalising those previously distributed by the market or public fiat, or by not externalising those which they originate themselves” (Dunning, 1995).

Those activities and assets, which offer the greatest gains from internalisation, include production and marketing of intangible assets. A case from telecommunication industry might show this explicitly. For example Nokia's core technology and embedded know-how and skills are internalised and used effectively as a competitive tool in high-velocity markets like mobile phones. The second important factor is

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<sup>1</sup> This list is by no mean exhaustive, but takes up some main factors the author has found in some core writings on the topic.

essential location-specific resources. Being located in diverse (international) environments large firms gain lots of advantages and internalisation logic's can therefore be used as a driver for internationalisation of the firm. Being multinational offers many advantages in relation to domestic firms. These include e.g.:

1. The access to markets and raw materials not available to competitors
2. Size and scale economies
3. Exclusive possession of intangible assets
4. To take advantage of the different market endowments where the firm operates, skills and locations compared to home based competitors

### *The PLC and internationalisation*

The product life-cycle concept (PLC) for company internationalisation is based on the logic of international trade between different parts of the world. This perspective relates directly to economic theory and the writings of Raymond Vernon (1996, 1976). He tries to explain the emergence of international trade and investment to the product life-cycle concept directly. He based his perspective mainly on trying to explain international trade flows (esp. between the U.S and Europe). His argument has also been used for explaining internationalisation of the firm. Vernon himself declares in his seminal article from 1996 that this perspective has not been used in understanding the economics of the firm.

The basic assumptions of the theory are that location of new products usually is started in some of the developing economies, e.g. the United States. The new product innovation and production goes through different stages of the product life cycle, and in the new-product phase the demand and growth is assimilated through the growing markets at home. Later, when the product has gone through its growth stage and starts to mature the situation is different (Vernon 1996, 17-21). At this stage production differentiation is taking place, but this stage has other implications as well according to Vernon.

“Once again, the change has locational implications. First of all, the need for flexibility declines. A commitment to some set of product standards opens up technical possibilities for achieving economies of scale through mass output, and encourages long-term commitments to some given process or some fixed sets of facilities. Second, concern about production costs begins to take the place instead of concern about product characteristics” (Vernon 1996, 17).

And he continues: “..at this stage in an industry's development, there is likely to be considerable shift in the location of production facilities..”. Vernon hypothesises that firms (in the fictive U.S. example he explicates) starts to other overseas markets, notably so in affluent countries of Western Europe where demand for the products can be found. Exports start at this stage before serious price competition from low-cost producers has started. Exports are preferred also in relation to FDI because rationalisation and mass-production at home minus transport and other distribution and marketing costs can at this stage often offset the rationale of FDI. After this stage, according to Vernon, it often can be economically sound to start with FDI in the advanced countries in Europe, in this case. “Accordingly, it may prove wise for the international firm to begin servicing third-country markets from the new location. And if labour cost differences are large enough to offset transport costs, the exports back to the United States may become a possibility as well”. “The office machinery industry, for instance, has seen repeatedly the phenomenon of the introduction of a

new product in the United States, followed still later by United States imports” (Vernon 1966, 19).

As for the standardised product the theory further assumes that “... at an advanced stage in the standardisation of some products, the less developed countries may offer competitive advantages as a product location” (op. cit., 21).

The PLC-approach to internationalisation can be said to follow firm-specific developmental stages as well as external markets at home and abroad as drivers for corporate internationalisation and trade. According to this very economic model a wave-like development of trade and investment will follow, especially in certain type of industries. The theory still has relevance, especially when taking into account wage-differentials and level of technology in different parts of the world. It seems that more contemporary global techno-economic processes have been more rapid and unpredictable. The notions of technological change and deregulation of markets was not taken into account in this model, for example. Nor did behavioural dimensions have any decisive role to play. Vernon came also back later to his propositions taking a new stand due to new circumstances (Vernon 1979).

## BEHAVIOURAL MODELS

### *The decision process model by Aharoni*

This theory is the first to directly take ideas from the behavioural theory into consideration when developing a theory of the internationalisation of the firm. “Foreign direct investment is seen as a complicated social process. Many different attitudes and opinions, social relationships both inside and outside the firm and the way such attitudes, opinions and social relations are changing” (Aharoni 1966, 13).

This reference clearly takes up the key point in the work by Aharoni. In a sense, it is really a quite distinctive trademark for the coming research within the area. Same types of questions, which arise in the work by Aharoni, seem to come to the fore later on. Terms like “social” and “process”, “relationships” and “commitment” are some of the key constructs in contemporary models of internationalisation studies and management studies in general (cp. the following section below).

Aharoni has mainly the perspective of the U.S. manager, which, quite rightly so, does not have generally such a basic interest for foreign markets as for example their European colleagues. Aharoni starts with quite interesting remarks, very different from those described above. He starts from the manner as a human being, a decision-maker who is hesitating, feeling and having limited resources and prone to trying to avoid surprises, but he knows that is a part of reality. (It might be the case that I am overemphasising this fact here, but this is my interpretation of reading the article (Aharoni 1996, reprinted in Buckley & Ghauri 1999, 9).

“Who and what event posed the problem initially? The first foreign direct investment decision is to a large extent a trip to the unknown” (op. cit., 9)

The triggering signals for FDI are presented as being the following:

1. An outside proposal
2. Fear of losing a market
3. The 'band-wagon' effect: very successful activities abroad of a competing firm in the same line of business, or a general belief that investment in some area is a 'must'
4. Strong competition from abroad in the home market

Aharoni pinpoint that there are many different possibilities for going abroad (either "drifting away" or intentionally and strategically plan for internationalisation. Often it is a combination of several motivating forces not just one or two triggering signals. In the mindsets of managers there exist often many countervailing forces of "go" vs. "no-go" possibilities. This is also a part of the social system where the firm operates and what corporate culture characterise the firm and its markets. It also is a part of previous events in the company's history, which can hinder or facilitate the FDI-decision process. "Past loadedness" plays according to Aharoni a crucial role in this process. Also other problem areas facing the company have to be taken into account. Many different people from inside the organisation as well as from the outside could have influence on the decision, for example.

In the summary of the article one can find some of the main points considering the FDI decision process, which also are used much later in other theories.

"It should be reiterated that a human being is not a mathematical programming machine. He has limited faculties and limited ability to focus his attention. A multiplicity of reasonable alternatives always exists. His priorities are driving his time and attention among them depends on many factors. ... What factors make an organization veer off its 'normal' path and look abroad?" (Aharoni 1999, 13).

### *The Uppsala process model for company internationalisation*

The internationalisation of the firm has to a great extent been studied at the department of business administration at Uppsala University. Professor Sune Carlson and his colleagues started the research in the 1960s. Especially the contributions which related to the concept of different stages or steps which were followed in this process as well as the role of market commitment and market knowledge formed basic starting points (Johanson & Wiedersheim-Paul 1975, Johanson & Vahlne 1977 and Johanson & Vahlne 1990).

The steps the theory presents are the following:

1. No regular export activities
2. Export via independent representatives (agents)
3. Establishment of an overseas sales subsidiary
4. Overseas production/manufacturing units

Concerning the entry modes the role of licensing and joint venture arrangements has later on been included into these steps of internationalisation modes (Andersen 1993, 210).

Internationalisation was according to this perspective hypothesised to take place through incremental steps when entering into new markets, which have a greater psychic distance. The concept of psychic distance was seen as a factor preventing or disturbing the flow of information between firm and market. Factors included consist of differences in language and culture, level of education, political differences etc. (Johanson & Vahlne 1977, 90). The case studies presented by Johanson & Wiedersheim-Paul earlier seemed to follow this pattern (Johanson & Wiedersheim-Paul 1975).

Johanson & Vahlne have developed this stepwise approach in these two articles (1977, 1990). In these writings a basic assumption has been made that market knowledge and market commitment affect both commitment decisions and the way current decisions are performed, which in turn, affect market knowledge and commitment. The Uppsala model is quite simple and straightforward and is presented in fig. 2. Market knowledge and commitment affect commitment decisions, which in turn, will through current activities and learning and decisions affect commitment to possible new markets with greater psychic distance. The role of knowledge is seen as being fundamental in this process. Internationalisation requires both general knowledge as well as market specific knowledge. Market specific knowledge is obtained mainly through experiences from specific markets. The transferring of knowledge can take place mainly concerning operations, which are according to the Uppsala researchers more general to its nature.

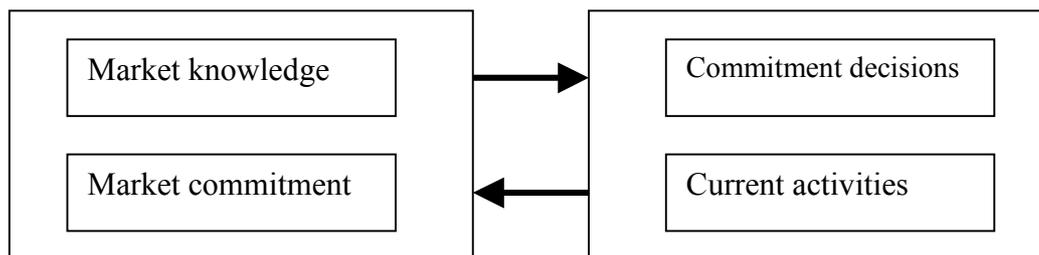


Fig. 2. The internationalisation process of the firm (Johanson & Vahlne 1990)

Growth is therefore facilitated through general knowledge especially. Knowledge can be seen as a human resource. The better the firm has knowledge about the market the more it is committed to it. Knowledge created through experience is central in this process.

Current activities have an important role to play in the model. Current activities constitute the prime resource of the firm, which is experiential. Commitment decisions are concerned with how much of the current resources are committed to foreign operations (Johanson & Vahlne 1977, Andersen 1993, 211). The better the knowledge of a market the more valuable are the resources and knowledge about that market and then the resources committed to this market will become stronger. Additional market commitment will then, according to Johanson & Vahlne, be made in the form of small steps through learning. When experience has been gained from one market a gradual commitment, especially to similar type of markets can be made. Learning is mainly experiential in those markets, which are unstable and undergoing change and being psychically more distant. When markets are more stable experience can be gathered also by other means than experience.

### *A Finnish variant*

Luostarinen (1979) in his FIBO-project<sup>2</sup> has carried out a large survey research concerning the internationalisation of Finnish firms in the 1960s and 1970s and beyond. His doctoral thesis from 1979 reports the main findings of the project at this stage. Luostarinen bases his theory on the theory of strategic decision-making, the growth of the firm as well as on the role of the smallness and openness of the Finnish economy as a pressure towards internationalisation. He bases his managerial decision-making perspective on the concept of “lateral rigidity” meaning that managers usually follow earlier steps and are not so prone to find “side-steps” and new behavioural ways of approaching decision-making. The role of distance and stepwise development of internationalisation was supported by his study. Markets nearby were penetrated first and thereafter more distant markets. Finnish firms did also start firstly with indirect operations (exports) and started thereafter with more FDI operations. This followed closely the findings and the theory postulated by the Uppsala model of internationalisation. Similar conclusions in a Nordic setting have been made by e.g. Nordstrom (1991) and in Finland by Larimo (1993).

Later on Luostarinen and Welch have pinpointed the role of internationalisation “backwards” as well. The authors point out that a firm can also gradually get internationally involved in business operations through its input channels, mainly through purchasing and logistical operations (Luostarinen & Welch 1988). This perspective is relevant and has been also taken up in marketing settings. Anderson & Narus (1999) prefer the concept “market management” instead of “marketing management”. The first term takes, according to the authors view, a more holistic view of a firm’s relations to its markets of both the supply side (purchasing & materials management) as well as its downstream markets in the value chain (Anderson & Narus 1999).

### *Innovation process models for corporate internationalisation*

The best-known theoretical work on the diffusion of innovation and an innovation stages model is presented in 1962 in the work of Rogers. Andersen (1993) makes a well-structured presentation about these models and I will just give a brief overview here. The articles Andersen is referring to have been published between 1977 – 1982 (Bilkey & Tesar 1977, Cavusgil 1980, Czinkota 1982, Reid 1981). The phases presented in these articles closely follow the ideas put forth by Rogers, but in this case as illustrating internationalisation steps instead of innovation steps. The steps presented in the four articles are between 5-6 in with a bit different contents at each stage. The main idea of all the authors is that the innovation stages of Rogers (1962) are used in a general stepwise manner in order to see how firms start exporting and/or deepen their involvement from a non-exporting firm into international markets (see Andersen 1993, 212-213 for a comparative presentation). The models have also a close proximity with the aforementioned models by the Uppsala-researchers. The stepwise manner and the gradual commitment to more and deeper foreign

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<sup>2</sup> FIBO – the Finnish international business operations project has been an ongoing research project at the Helsinki School of Economics at least since the early 1970s.

involvement are presented in all four papers. Also the experimental perspective has a strong role to play in the presented models. Especially Bilkey & Tesar (1977) and Cavusgil (1980) find that psychic distance is a part in the process. These process models are however mainly directed towards explaining export behaviour and not other internationalisation alternatives. One can still argue that this could probably be done as well. We could therefore have more stages where the Joint Venture and FDI alternatives would be alternatives in the final stages. In essence, the models put forth at least the following core points:

1. A stepwise, incremental involvement to exporting and new markets,
2. The experiential nature and the “innovative” phases are explicated through empirical evidence,
3. The existence of psychic distance, which is overcome through experiential learning.

These models are pointing out the existence of a gradual process, usually towards a deeper penetration of markets as well as to geographically and culturally more distant markets (cp. Johanson & Vahlne 1977, 1990, Luostarinen 1979, for example).

## SOME RECENT MODELS

### *The network approach to internationalisation*

Research at the Dept. of Business Administration at Uppsala University mainly base a network approach to internationalisation in their research. The network approach can be said to form an outgrowth of the aforementioned Uppsala process model. It relates to some of its core constituents, but has another logic concerning the main driving forces for corporate internationalisation (Håkansson 1982, Forsgren & Johanson 1992, Turnbull & Valla 1986). Networks are defined usually as “sets of connected exchange relationships” (Cook & Emerson 1978). The *connectedness* of firms to other firms forms the core of the business network approach. Through the firm’s *commitment* through technological, market as well as e.g. financial *ties* with other so-called market *actors* (e.g. firms and departments of firms at the market or supply-side, financial institutions, and legal actors) firms gradually extend their network connectedness. These business networks are extended also across national borders and become internationalised. These connections ‘float away’ firms into international markets through both intentional as well as through more “evolutionary” and unplanned manners. Writings concerning this perspective are e.g. Johanson & Mattson 1988, Johanson & Mattson 1990, Forsgren & Johanson (eds.) 1992, Johanson & Johanson 1999. The Actors-Activities-Resources (ARA) model is used in order to explain how these factors play together through business networks and form a situation where it is profitable - and secure - for firms to co-operate and together use the diverse skills and knowledge, positions etc. that the actors in the network possess. Also indirect links of some network partners can be utilised by members of the business networks (indirect connectedness).

The network approach has been used in order to explain why and how firms internationalise their operations. Johanson and Mattson (1988, 297-306) gives some guidelines for taking such an approach. They start from the assumptions that a firm’s

position in the network is a key factor to maintain and develop in order for the firm to reach its objectives. Both the degree of internationalisation of the firm as well as the internationalisation of the market influences the process. A model of four situations is presented (see fig. 4)

		Degree of internationalisation of the market (The production net)	
		low	high
Degree of internationalisation of the firm	low	The Early Starter	The Late Starter
	high	The Lonely International	The International Among others

Fig. 3. Internationalisation and the network model.  
Source: Johanson & Mattson 1988

The types of firms are given certain characteristics in this model of internationalisation.

*The Early Starter* has few and unimportant relations with foreign firms. This is also the case with other firms in the production net. The firm has little knowledge about international business. Due to this fact the firm uses local agents or trading houses or other firms who have experience of e.g. exporting in order to be able to start international operations and to learn. It is therefore utilising the positions in the market occupied by other firms (Johanson & Mattson 1988, 298). The initiative to go abroad is often taken by other counterparts than the firm itself. It is willing to make small resource adjustments due to investing into foreign operations. When the firm gradually becomes more internationalised it will move more into another phase, the lonely international

*The Lonely International* is a case where the firm is highly internationalised but the market environment is not. The firm has previous experience and know how concerning foreign operations and markets. The firm also has, in this fictive case, a possibility to adjust to differences on international markets and has gained through learning a possibility to enter into new nets abroad and extend its operations. It can therefore use its network in order to expand. The firm is also more independent from other actors in the network concerning expansion to new markets. It is more prone to be a promoter for international expansion of its counterparts in the network. (op. cit. 301).

*The Late Starter* has its domestic network as an offspring for starting international operations.

”Relationships in the home market may be driving forces to enter foreign markets. The firm can be ‘pulled out’ by customers or suppliers, and in particular by complementary suppliers, e.g. in big projects”. Thus market investments in the domestic market may be driving forces and can be seen as assets which can be utilised when going abroad” (op. cit. 302)

*The International Among Others* relates to a case where the firms and its environment (or network of business relationships) are highly internationalised. In this case international extension or penetration means only a gradual shift of the position of the company concerning its internationalisation. The firm can use its international net in order to bridge over to other nets, if needed, or wanted. The need for co-ordination of the firms' international operations becomes a critical issue. It has to take into consideration shifts in production costs across the markets where it operates as well as the moves and countermoves of its' competitors. The many positions such a firm occupies means according to the authors that it gives "... The firm access to, and some influence over, external resources". The international manufacturing firm may therefore use diverse suppliers across different countries/regions, instead of producing these themselves (outsourcing). The possibility to co-ordinate operations due to changes in the business environment is also prevalent in this case. When a firm has international business contacts it can be presumed that it can utilise these links in order to get to know about these changes and how to take advantage of these changes (Johanson & Mattson 1988, 305-306).

#### *The 'Born Globals' perspective & SME-networks*

One of the trends in the contemporary world is characterised by the word (or more precisely the metaphor) "globalisation". I have been wondering many times about the "real" meaning of this multifaceted word. I therefore take up the discussion about globalisation and thereafter try to give a short overview about the possible change processes the globalisation phenomenon can give concerning a "changing world". What does globalisation mean and imply? That is a tricky question<sup>3</sup>.

One perspective that relates to globalisation is *dissolving of different hinders* concerning business and social exchange and information. This notion of globalisation has been popularised by K. Ohmae as the absence of borders and barriers to trade between nations (Ohmae 1995). Trade barriers have been lifted gradually through the GATT and WTO negotiations. Hinders between nations have been radically removed through free-trade arrangements worldwide and between nation states. The latest issue in 1999 has been the trading arrangements between China and the U.S. Politically new open policies have been pursued against foreign trade and investments (e.g. in China, East Asia, Latin America and in the "New" Europe). Trade and investment opportunities therefore is being enabled more freely than ever before in history in the late 1990s.

Globalisation contains also a *temporal element* because it is closely related to the "time-space compression" phenomenon as described by Harvey (1996). This means, according to him, that both temporal as well as *spatial* (geographical) processes can be reduced and compressed into "here and now" trade and information exchange over the globe – if available contemporary infrastructure, communication and IT-devices are put in place together with skilled people. The global financial market is a good example. Accelerating speed of information together with rapidly developing information and communication technology (ICT) developments and the invention of software enabling real-time information exchange is a part of the globalisation

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<sup>3</sup> This section of the paper is predominantly based on a preliminary manuscript by the author (Törnroos, forthcoming)

phenomenon. Everything gets smaller and faster and reaches more and more people and places around the globe.

Globalisation means also – in a way through the ‘real’ sense of the word – to *enable a global geographical reach* in markets and competition, trade and investment, in this context to the operations of the firm (cp. Levitt 1983 concerning global marketing ideas). A global company should be one with activities in all of the world’s continents. Global is defined as “covering and affecting the whole world” and/or “covering the whole of a group of items”.

Dicken (1998) is defining economic globalisation as having both *functional* as well as *geographical* entities. I tend to agree with his notion. He claims that globalisation means “a shift in traditional patterns of international production, investment and trade”. Dicken defines economic globalisation as; “... not merely the geographical extension of economic activity across national boundaries but also – and more importantly – the functional integration of such internationally dispersed activities” (Dicken 1998, 5).

Another aspect is to relate globalisation as an “interconnection *between overlapping interests of business and society*” (Brown 1992). Barbara Parker views these perspectives as being different but overlapping and ongoing realities for international firms. She goes even further to state that:

“.. boundarylessness is ... described as more than a question of nations and economies; it refers to an ability to cross other traditional borders of time, space, scope, geography, functions, thought, cultural assumptions and the self in relation to others and to permeating boundaries within organisations.” (Parker 1998, 6)

I am inclined to believe that *crossing boundaries between organisations* and the formation of global business networks is an additional core perspective to be taken into account when trying to understand internationalisation and globalisation processes of the firm.

Globalisation is a grand and multifaceted concept/metaphor. It should therefore be put into a specific context in order to make sense of it. According to the conceptual analysis there is no “general” understanding. Here we look at globalisation from an internationalisation and international business perspective. This entails then to look how does trends across the globe, especially in markets, politics and through new technology development affect the internationalisation (or globalisation) process of the firm? In the following some perspectives related to these processes are put forth. The perspectives are limited, but can all said to be important in the “globalisation process of the firm”.

Globalisation varies across industries. High-tech firms usually are more prone to globalise their operations because firms have to commercialise their products rapidly across national and regional markets (Madsen & Servais 1997, Nummela 2001). For companies in these industries competitive pressure is an important pressure to internationalisation and globalisation. Both globalisation and increasing international orientation of individuals are important determinants behind this topical phenomenon: the birth of companies that are international from the start-up phase. Several independent researchers have studied these types of companies. They have been

named “Born Globals” (Madsen & Servais 1997). A definition of these firms is the following:

“... a firm that from its inception derives competitive advantage from the use of resources and the sale output in multiple countries” (Oviatt & McDougall, 1994, 49).

Born global firms can be said to be quite recent and a phenomenon which have occurred as a consequence of opening markets through deregulation, new competitive spaces emerging and the rise of multinationals and some key markets which have a global scope and large markets across all continents. The rise of high-speed highways of information and new technological development has speeded up the existence of Born Global business firms. This holds also concerning SME-firms.

The Born Global debate is still quite young and research is under way. Some evidence seems to point out those firms in e.g. telecom, computer based sectors, and information services as being among those industries, which have Born Global type of companies.

### *The eclectic approach*

The eclectic approach is mainly connected to the work made by J. Dunning in his extensive writings on the topic of why multinational firms exist and what logics are driving their expansion and growth (Dunning 1979, 1981, 1996). His writings are quite “economic” even if he uses a so-called “eclectic” and many-sided approach in order to understand why MNCs exist and what reasons or drivers create MNCs and their management.

The model by Dunning is based on three main propositions related to (i) location-specific advantages, (ii) ownership advantages and (iii) internalisation advantages. Multinational firms can specifically use these three types of advantages in an efficient manner due to their multinationality. This theoretical perspective is not explored at length here, but it is based on previous research on MNCs and tries to combine different mainstream thoughts about why MNCs have some competitive advantages compared to other type of firms.

The value of this theoretical framework can be said to be limited when considering SME-internationalisation. It is mainly directed towards the existence of MNCs, but it cannot be totally dismantled when trying to explain SME firms and their international operations. Location can be a source for going international for SMEs, especially but also the other two factors can play a role. The model is appealing as a framework also because it takes many perspectives into account. The problem of the theory is its eclectic nature. This poses an inevitable question; can you handle so many perspectives simultaneously in a rigid way?

## SME-COMPANIES AND INTERNATIONALISATION

SME companies have distinct problems in their internationalisation. The resource base is often quite limited. The role of the manager is crucial because most companies are owners managed to a large extent. Previous experience is in many cases lacking as well as needed skills concerning command of foreign languages, cultural experiences and foreign markets and marketing as well as institutional management.

## CONCLUSIONS AND IMPLICATIONS OF RESEARCH

Internationalisation theory has been developing with new and more behavioural models than at the outset. If one considers, for example what change aspects has been taking place, for example within marketing or organisation theory the pace of innovation has been quite slow. Internationalisation theory lies in the “middle ground” between the strategies of the firm and market management. Internationalisation motives and mechanisms have been changing during the period of 1960-2001 quite dramatically. The business environment in the aftermath of the Second World War was giving the ground for the more macro-economic models for explaining international investment and trade of corporations.

The second wave can be said to be the behavioural theory of the firm and its influence on decision-making concerning international activities of the firm (Aharoni, 1966 Johanson & Wiedersheim-Paul 1975, Johanson & Vahlne 1977, 1990, Luostarinen 1979).

More recent perspectives on the internationalisation of the firm deal with the eclectic paradigm of internationalisation (Dunning 1979, 1985, 1996) and the “Born Globals” debate (Madsen & Servais 1997). Globalisation as a phenomenon is quite topical as well, albeit a very complicated matter.

An interesting final perspective from a small and mid-sized firm’s point of view is the rise of network organisations and the role of outsourcing of functions of large MNCs. Relationships between firms in the forms of sets of connected exchange relationships in business gives SMEs new growth opportunities. In addition, the rise of new independent economies close to Finland and Scandinavia in the “New Europe” forms new opportunities. The network perspective on internationalisation forms also an interesting productive opportunity for firms with small resources but e.g. specialised skills. These skills can be connected to specific needs in foreign markets through other actors.

Ontology/perspective	Theories of internationalisation	Some key constructs
Economic-based <ul style="list-style-type: none"> <li>• Positivist/logical empiricist</li> <li>• Quantitative</li> <li>• Nomological</li> </ul>	<ul style="list-style-type: none"> <li>• Internalisation theory</li> <li>• Theory of the growth of the firm</li> <li>• PLC-theory</li> <li>• Transaction cost theory</li> </ul>	<ul style="list-style-type: none"> <li>• Internalising &amp; control</li> <li>• Productive opportunities</li> <li>• Economic man</li> <li>• Transaction costs</li> <li>• Control &amp; co-ordination</li> <li>• PLC</li> <li>• Economic efficiency</li> </ul>
Behavioural ontology <ul style="list-style-type: none"> <li>• Managers satisfying</li> </ul>	<ul style="list-style-type: none"> <li>• FDI-decision models</li> <li>• The “Uppsala</li> </ul>	<ul style="list-style-type: none"> <li>• Market knowledge</li> <li>• Market &amp; firm</li> </ul>

decision-making <ul style="list-style-type: none"> <li>• Bounded rationality</li> <li>• Partly socially constructed reality</li> </ul>	school” <ul style="list-style-type: none"> <li>• The ‘Finnish variant’</li> <li>• Innovation process models</li> </ul>	commitment <ul style="list-style-type: none"> <li>• Stepwise approach to more extended international operations</li> <li>• ‘Lateral rigidity’</li> <li>• ‘Confined choice’</li> <li>• ‘Psychic distance’</li> <li>• Innovation processes</li> </ul>
Internationalisation is a process and takes place through networks of relationships <ul style="list-style-type: none"> <li>• Social construction</li> <li>• The reality is embedded in relationships &amp; networks</li> <li>• Social capital, trust &amp; ‘human’ variables in decision-making</li> </ul>	<ul style="list-style-type: none"> <li>• The network approach to internationalisation</li> <li>• “Born Globals”</li> </ul>	<ul style="list-style-type: none"> <li>• Connected exchange</li> <li>• Relationships and networks in management</li> <li>• Interdependence</li> <li>• Connections takes firms abroad</li> <li>• Global markets</li> <li>• World-wide opportunities</li> <li>• Information technology impacts</li> <li>• “Borderless” organisations</li> <li>• The “hollow corporation”</li> </ul>
Internationalisation is a many-sided and complex, but an economic rational decision process <ul style="list-style-type: none"> <li>-spatial factors</li> <li>-internal markets in MNCs</li> <li>-ownership issues</li> </ul>	<ul style="list-style-type: none"> <li>• The Eclectic model of FDI/MNE</li> </ul>	<ul style="list-style-type: none"> <li>• Locational advantages</li> <li>• Ownership advantages</li> <li>• Internalising advantages of MNCs</li> </ul>

Table 1. Ontological viewpoints and theoretical models and constructs within the theory of the internationalisation of the firm - a tentative presentation.

In the table 1 three main streams of research are presented in a three-dimensional manner. The first column presents the ontological perspective, which the key presented theoretical models are based on. The second column deals with those explicit theories related to the ontological assumptions about reality. The third column relates to those key constructs that are suggested to be important within the chosen theories. The table is developed in order to position different approaches in the theory concerning the internationalisation of the firm. This division is till at a tentative stage and need refinement. The table is a way to try to map the most influential theories found here concerning the theory of the internationalisation of the firm.

Research concerning internationalisation of the firm has not been developing very rapidly. The role of globalisation and rapidly developing new technologies have resulted in a fairly new research interest within this stream of theory building and empirical research, like the “Born Globals” perspective. The network approach to company internationalisation forms an interesting research avenue for further exploration. The models and theories concerning business networks, including theory-models concerning internationalisation from a network perspective are mainly developed in the 1980s. There could at present be new research possibilities to

explore concerning how and when and through what channels and with which end results firms have developed their international activities and what role the initially proposed change processes have played. Another research avenue could be the role of internal drivers and networking *inside* the company and *outside events* and how they coincide. How intentional is internationalisation and how are positions in networks of relationships gained through interaction? These could also become valid questions to explore through both cross-sectional research and through explorative and processual case studies.

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