3 BARRIERS TO INTERNATIONALIZATION

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The argument of this chapter is that internationalization is a special case of the growth of the firm. Consequently, many of the concepts that have proved serviceable in analyzing the growth of the firm domestically can prove useful in the case of internationalization. However, there are extra dimensions to international expansion that need to be delineated.

Internationalization is defined here as establishing operations outside the home country. Therefore, exporting from a domestic base is excluded from consideration, but the establishment and development of agencies, licensing arrangements, sales and production subsidiaries, and joint ventures all fall within the definition.

However, models based on economics tend to be comparative static and to ignore processes. Change elements are often disregarded or underplayed. Indeed, change itself is often seen as costless. This chapter attempts to introduce dynamic elements into the calculus, and it argues that examining internationalization has forced unorthodox elements into theories of the growth of the firm, notably the importance of management decisions and processes. These two elements are interrelated. In order to have a theory of management, it is essential to move away from comparing states to company processes—in particular to contrast management processes with market processes. This is a recurring theme in this chapter.
The growth of the firm

Several key forces are crucial in the growth of the firm. Among them are: (1) meeting demand; (2) capitalizing technology; (3) financing expansion; (4) expanding the management team; (5) recruiting resources (particularly labor); (6) competitive pressure; (7) information barriers; (8) external, particularly governmental, regulations; (9) intraorganizational constraints, perhaps rising from the historical evolution of the company; and (10) pressure from suppliers, buyers, joint venture partners, and other external bodies.

These factors are interrelated. The interaction of several of these factors may be construed as a “barrier.” In different circumstances one, or more, of these forces may be a constraint on growth. A number of authors have concentrated on one of these forces as crucial: for instance, Penrose’s classic (1959) exposition of underutilized resources (notably management) and its corollary that the expansion of the management team may be a crucial constraint on growth. Other authors, in examining the competitive process, have pointed to a concatenation of forces as barriers. Porter’s pressures from suppliers, buyers, new entrants, and substitutes as well as existing rivals (1985, p. 6, Fig. 1.2) may well be construed as a comprehensive catalog, derived from industrial economics, of external barriers.

Special categories of firms may also be subject to particularly strong barriers to growth. Particular attention has been paid to small firms, for whom some of the normal environmental and internal pressures may be barriers to growth. This may be particularly true when a number of barriers are simultaneously operative. Two crucial internal shortages, of capital and of management time, are central to this thesis (Buckley, 1989). The difficulty of expanding the management team in a small firm with the consequent loss of control by the existing managers and of raising capital for expansion are interrelated. The difficulty of capitalizing knowhow, raising funds while not losing control of key competitive advantages, compounds the difficulties. While a large, specialized literature has developed on small firms, it is essential to emphasize one key point: the relationship between firm size and market size. Two situations can be envisioned; a small firm attempting to grow in a “large firm” industry, that is, an industry where optimal scale is large relative to market size, versus an industry with few economies of scale where many small firms exist. Industries requiring a wide range of specialist intermediate inputs, in particular, present a small firm in equilibrium with a small market. The role of small firms to fill a market niche has been noted, for instance, in