1 Towards an Integrative Framework of the Internationalization of the Firm

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INTRODUCTION

‘Stage’ theories and their accompanying models proliferate in the internationalization and broader international business literature (Vernon, 1966; Wells, 1968; Johanson and Wiedersheim-Paul, 1975; Pavord and Bogart, 1975; Bilkey and Tesar, 1977; Khan, 1978; Cavusgil, 1980; Czinkota, 1982). These suggest that the process of ‘going abroad’ involves a (logical) sequence of international development steps. The problem with these conceptualizations is, first, that attempts to simplify complexity have resulted in oversimplified perspectives that have subsequently been accepted – almost, without question – as irrefutable fact; secondly, that such blind obeisance has obfuscated the truth regarding the actual processes involved. Indeed, most models – notably, those involving life-cycle theories – suffer from limitations concerning time-scales (Giddy, 1978). Moreover, their ability to delineate boundaries between stages or adequately explain the processes which lead to movement between stages is rather limited (Andersen, 1993).

This chapter explores the underlying assumptions inherent in many of the best-known internationalization ‘stage’ theories and models. It contends that such approaches can no longer be accepted, as many of their fundamental tenets are fatally flawed. Thereafter, it examines alternative conceptualizations of the internationalization process, such as contingency theory (Reid 1986), network/interaction perspectives (Turnbull and Valla, 1986; Johanson and Mattsson, 1988) and internalization/transaction cost approaches (Buckley and Casson, 1976). Finally, it seeks to incorporate elements of these diverse – and often contradictory – approaches into a more cohesive framework on the internationalization of the firm.
THE INTERNATIONAL EXPANSION OF THE ENTERPRISE

The topic of the internationalization of the firm (incorporating the export development process, and the emergence of the multinational enterprise (MNE)) is principally concerned with smaller and medium-sized enterprises (SMEs). Nevertheless, multinational production and service activity (the ‘final stage’ in some models) is mainly the domain of larger firms, and exporting too is dominated by large companies. Despite the fairly extensive interest in internationalization, it is important to recognize that only a segment of international business activity is included within the topic. For example, the Uppsala internationalization model (Johanson and Wiedersheim-Paul, 1975) is chiefly applicable to market seeking international activity, as opposed to operations motivated by natural resource seeking, efficiency seeking (including investments designed to take advantage of differences in the availability and cost of labour and other factors of production) and strategic asset seeking (Dunning, 1993).

Secondly, there is an implicit assumption of organic evolution in the literature on the internationalization of the firm, rather than expansion through mergers, acquisitions and alliances (MAAs). According to UNCTAD (1994), worldwide cross-border acquisitions and mergers accounted for 70 per cent of the foreign direct investment (FDI) inflows to developed countries in the years 1986–90. As in domestic business strategy, mergers and acquisitions may provide a faster route into internationalization; while international strategic alliances may not only have a variety of motivations but may also utilize different (non-equity) modes of operating and involve a variety of elements in the value chain.

Third, the internationalization concepts have less relevance to the established multinational firm, either as investor or as exporter. It is true that new MNEs are emerging all the time – perhaps at a rate of 4000 to 5000 a year (Dunning, 1994) – but this initial investment is relatively small in comparison with sequential investment undertaken by established MNEs. The latter probably accounts for 70–90 per cent of worldwide FDI. There has been relatively little systematic study of the motivations or patterns of this sequential investment. For many MNEs, strategies of integrated international production at regional or global levels have been associated with production rationalization and increased cross-border product or process specialization (an exception may relate to the behaviour of acquisitive MNEs where affiliates have tended to be less integrated; see Ivarsson, 1996).

There is also emerging evidence of subsidiaries developing somewhat independently of parent strategies. A variety of subsidiary strategy/role typologies has been postulated by different authors (White and Poynter, 1984; Bartlett and Ghoshal, 1986; Birkinshaw and Morrison, 1995); and structurally, the classic hierarchical model has been challenged by