

Evaluating the Internationalization Process of Firms: Methods and Dimensions

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Abstract

The term internationalization has been mostly used to show the outward expansion movement of companies where they aim at capturing a bigger market share outside of their home country. The topic of internationalization has been intensely studied over the years, capturing the attention of both the academia and the business environment. The aim of this paper is to analyze the initial models of internationalization and gain a better understanding of the process and its course over time. After conducting the business literature review, there have been highlighted 6 dimensions of the internationalization process: speed, intensity, geographic location, operation method, cultural and organizational structure, and the aim of this paper is to discuss the main internationalization dimensions and the way the process has adapted to the current business environment.

Key words: internationalization, methods, dimensions

J.E.L. classification: F23, L25

1. Introduction

The internationalization of firms is a well-known topic in the business literature as it is appealing for both the academia and the business environment. The process of internationalization is the method used by companies to expand their economic activity outside the home country in order to capture a larger market share. Through the process of internationalization, companies contribute to the growth of world economy and help develop the process of globalization where countries around the world become interconnected. Johanson and Vahlne (1977) define internationalization as the multi-level process where firms strive to strengthen their market involvement and gradually obtain commitments from foreign consumers; moreover, the authors consider that internationalization is largely a matter of establishing relations in foreign markets.

The technological advancements and the development of communications have led to a reduction of physical distance on a global scale, therefore a company must take into consideration other competitors in order to accomplish its economic goals. Dicken (2004) states that the process of globalization is a geographical process and for a good understanding, we must consider how time, space and location are impacted by contemporary changes in technology or economic and political practices. The process of internationalization has also suffered changes over the course of time due to technological advancements and this paper offers a different perspective on how the current business environment is impacting the way companies expand their business outside of the home country.

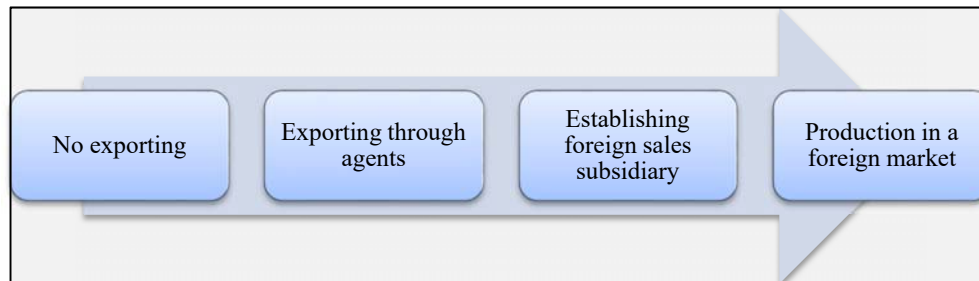
2. Literature review

Fernandez and Nieto (2005) claim that the process of internationalization is considered the most complex strategy that a company can implement and when it comes to taking the decision whether to internationalize or not, the first question that needs to be answered is why a company would want to proceed in expanding globally. Researchers in the field have tried to create a model applicable to

all companies as to why they would want to extend internationally, but the complexity of the internationalization process makes this hard to achieve because there are many determinants that influence the phenomenon. In 1993, Dunning built a model that includes 4 categories of reasons why firms internationalize: (1) the search for new markets, (2) the search for new resources, (3) efficiency improvement and (4) strategic reasons. These categories of reasons are still common in the current literature, where the search for new markets and resources applies to most of the companies.

In today’s society, the international business environment is becoming more complex, where small and medium-sized companies, as well as large multinational firms, implement different internationalization strategies to serve the global markets. The internationalization process has been studied through different theoretical frameworks and models, but prior to the 1970s, this was a less familiar topic. The Uppsala modeled, developed by Johanson and Vahlne, is one of the most cited and well-known models in the business literature. The authors claim that internationalization is a gradual process of company involvement, and the economic environment and the challenges faced by the company during the process determine the pace of internationalization. The Uppsala model explains that the process of internationalization generally begins in a nearby foreign market and over time, once knowledge and experience are gained, the firm will increase its involvement in global markets. The information needed for a company to succeed in an international market is gradually accumulated with its experience. The Uppsala model suggests that companies are usually going through 4 stages: (1) economic activities without exporting, (2) exporting through independent agents, (3) setting up sales subsidiaries in a foreign market and (4) opening a production subsidiary in a foreign market. The model is transposed in the figure below:

Figure 1: The Uppsala Internationalization Model



Source: (Johanson and Vahlne – The Uppsala Internationalization Model, 1977)

The succession of stages above represents the increasing commitment of resources allocated to global expansion. The first stage does not offer any international experience, during the second stage the company has an information channel to the new market and receives limited information about the business environment, and stages 3 and 4 take place in foreign countries and the company has extensive international experience.

The business literature does not have a clear perspective for analyzing the internationalization process and there is no general applicable formula for success in global markets. The business environment is constantly evolving, and there is no model or theory that has plausible explanations for all needs of the companies.

The process of internationalization has been studied mostly from a singular dimension perspective and due to a fast pace changing business environment, it wasn’t until recently that the acceptance of multidimensionality stood out. The main dimensions of the internationalization process that have been identified in the business literature are speed, intensity, geographic expansion, operation method, cultural and organizational structure.

The speed of firm internationalization is defined as the time required for a company to reach a certain level of internationalization, and it’s measured by the number of years that have passed from the birth of the company to the first international economic activity. Johanson and Kalnic (2015) stated that the speed of internationalization can vary depending on the degree of the company’s commitment to international activities.

The intensity of the internationalization process generally refers to the degree of involvement that a company has during its global expansion process, and it is based on specific decisions taken by the company’s board members. Paul and Gupta (2013) believe that the intensity of the internationalization process is given by the level of resources allocated for foreign investments, and these choices are made by the members of the decision board of the company.

The geographical dimension of the internationalization process refers to the fact that generally, the border crossing and the establishment of operations abroad is necessary for a company to internationalize. Given the access to technological advancements such as the Internet, the geographic distance is not as hard to cover, the world map becoming smaller and countries more interconnected.

The method of operations refers to the way of organizing business activities in a foreign country (Hill et al., 1990); in other words, it is the governance structure that allows a company to develop and grow international economic activities. Usually, the company chooses its first operating method in a foreign country depending on its financial resources, and as the business grows, the operating method progresses as the company allocated more resources to mitigate risks. The table below shows the hierarchy of entry modes based on resource allocation:

Table 1: The hierarchy of entry modes based on resource allocation

No.	Operating method	Resource allocation hierarchy
1.	Indirect exports	1
2.	Direct exports	2
3.	Licensing/franchising	3
4.	Manufacturing contracting	4
5.	Management contracting	
6.	Turnkey projects	5
7.	Strategic alliances	6
8.	Joint venture	7
9.	Acquisitions and mergers	8
10.	Greenfield investment	9

Source: Polesello, D., Amal, M. – Determinants of International Entry Mode Choice, 2012

Table 1 illustrates the hierarchy of operating methods according to allocated resources, where 1 represents the lowest resource involvement for the company and 9 represents the highest level of involvement.

The cultural dimension refers to differences in language, political system, level of education, level of logistical development and other disruptive factors that can influence the flow of information between the company and the market. Beugelsdijk and Mudambi (2013) claimed that cultural differences between 2 countries are the most widely used type of distance in international business, and this shows the importance of cultural factors in shaping consumer and organizational behavior.

The organizational structure refers to the way a company is structured before, during and after the internationalization process as it is almost mandatory to create new departments to support the company’s activities in foreign markets. According to Garri and Konstantopoulos (2013), the major factor that determines changes in the organizational structure of the firm is the change in strategy, and as internationalization is considered one of the most complex strategies that a firm can follow, there will certainly be some structural changes throughout the company.

3. Research methodology

The current research relies primarily on secondary data research such as reviewing information that was readily available and could be easily accessed via the Internet. The data was free of cost, available through the university’s database where academic journals referring to the internationalization process could be downloaded. There have been downloaded roughly 35 academic articles using keywords such as: internationalization, dimensions, firm internationalization. Research works of various scholars have been studied and the information was presented in a detailed matter.

4. Findings

Given the complexity of the current business environment, internationalization pioneer models like the Uppsala model do not always apply to all firms. Moreover, the internationalization process has become so elaborated that firms must consider multiple dimensions of the process in order to achieve their economic goals globally. Throughout the literature review, I have observed that certain aspects of the internationalization process have not been studied as intensively before. The corporate social responsibility activities have become common business practice around the globe, and the few studies that have been done on this topic show that there is a positive relationship between the process of internationalization and CSR. Brammer et al. (2009) concluded that companies that were involved in CSR campaigns had a higher degree of internationalization; however, most of the studies done on this topic have taken place in countries with highly developed market economies. Through CSR activities, companies can mitigate risks that they are being exposed to caused by the changing business environment when entering a new foreign market, thus it is important to consider this dimension when studying the internationalization process.

Modern communication technologies are transforming the business environment, the Internet offering both countless opportunities and new challenges to firms that are choosing to expand globally. Sinkovics and Penz (2005) argue that due to the Internet, internationalization is a more viable and less expensive option for companies. Coviello et al. (2017) stated that digitalization has an impact on global expansion in terms of accessibility of resources, knowledge acquisition and development of new skills in foreign markets. Similar to the CSR dimension, the information technology dimension that I’m proposing has not been studied extensively due to its recent appearance in the current business environment, however, the few studies that were found on this topic indicate that IT does impact the process of internationalization.

The following table includes the 6 pioneer dimensions of the internationalization process and the 2 newly proposed dimensions with their afferent summarized definitions

Table 2: The hierarchy of entry modes based on resource allocation

No.	Dimension of the internationalization process	Indicator proposed
1.	Speed dimension	• Time required for a company to reach a certain level of internationalization
2.	Intensity dimension	• Degree of involvement that a company has throughout the internationalization process
3.	Geographic dimension	• Geographical regions where company operates
4.	Operating method dimension	• Mode of operation that a company choose for its international activities
5.	Cultural dimension	• Disruptive factors that can influence the flow of information between the market and the company (differences in language, education, beliefs etc)
6.	Organizational structure dimension	• Structural mechanism of the company that allows it to perform international activities
7.	Corporate social responsibility dimension	• CSR activities that help the company build a stronger base for international activities
8.	Informationa technology dimension	• Digital presence of the company in order to help reduce distance between countries

Source: author’s representation

Table 2 enumerates the dimensions of the internationalization process along with their respective short definitions. Depending on the needs and purposes of the company, companies can focus on a mix of the above dimensions to help the internationalization process become successful.

5. Conclusions

The process of firm internationalization is multidimensional, dynamic, and constantly changing, and even though it is a topic that has been studied for decades, there is not a clear way that a company can follow and gain a competitive advantage over competition. The way companies internationalized 30 years ago and the methods they use today can vary extensively due to changes in the business environment such as the use of technology or the impact that the political decisions have on international business legislation. For further research, I strongly believe that the CSR and IT dimensions need to be given more attention as they are heavily impacting the way a company can internationalize. CSR is a common business practice in today’s society and helps companies have a positive impact on the community, environment or employees. Lastly, the IT dimension influences a larger number of companies that are choosing to internationalize using online tools, thus further research needs more focus on how companies are using digitalization to internationalize.

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