THE INTERNATIONALIZATION PROCESSES OF THE FIRM

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A NEW RESEARCH AGENDA

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Abstract. This paper examines the fundamental assumptions and features of the Uppsala model of internationalization to suggest they have prevented the exploration of several conceptually relevant aspects of the internationalization of the firm. We identify three neglected issues that offer significant potential for further theoretical and empirical work, specifically the pre-history of internationalization, the internationalization of multiple products within the confines of the growing multinational corporation, and the internationalization of foreign units.

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INTRODUCTION

Now more than thirty years ago, researchers at Uppsala University published two seminal papers that conceptualized the internationalization process of the firm (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). In contrast to mainstream research at that time, what became known as "the Uppsala model" built upon the behavioural assumptions (cf. Penrose, 1959; Cyert and March, 1963) that managers are boundedly rational and uncertainty avoiding. By taking small steps outside the home country, managers could work their way around limited international experience and gradually reduce their uncertainty about foreign markets. Accumulating knowledge about foreign markets allowed them to subsequently perceive new business opportunities and to act upon them by making more far-reaching commitments. Internationalization was thus perceived as an incremental process, starting with geographically and culturally close markets and gradually extending further away from the firm's country of origin.

The Uppsala model has had a significant impact in the field of international business, inspiring a stream of research that has mainly supported but also challenged the original model's assumptions and predictions (for a summary of this extensive literature, see for example Johanson and Vahlne, 1990, 2006). At the same time, and perhaps because of the model's broad-based success and impact, work within the confines of the original model has prevented the exploration of several conceptually and empirically relevant issues in the internationalization process of the firm. In this paper, we set out to investigate a number of gaps in our knowledge about internationalization, mapping out three areas of research that have slipped through the net cast by the original model and remained largely ignored by contemporary research.

In the sections that follow, we start by delineating some of the in most part implicit assumptions of the original Uppsala model to illustrate what types of issues and questions have been left unanswered in the extant literature. We place particular emphasis on the pre-history of internationalization, the internationalization of multiple products within the confines of the growing multinational corporation, and the internationalization of foreign units. We then penetrate each of the three unexplored areas of research in more detail, explore some emerging hypotheses to be tested in future research, and finally summarize our arguments in a new agenda for internationalization process research.

THE ORIGINAL UPPSALA MODEL IN PERSPECTIVE

To understand why several conceptually and empirically relevant issues have remained unexplored in the internationalization process literature, three mostly implicit assumptions or features of the original Uppsala model need to be considered.

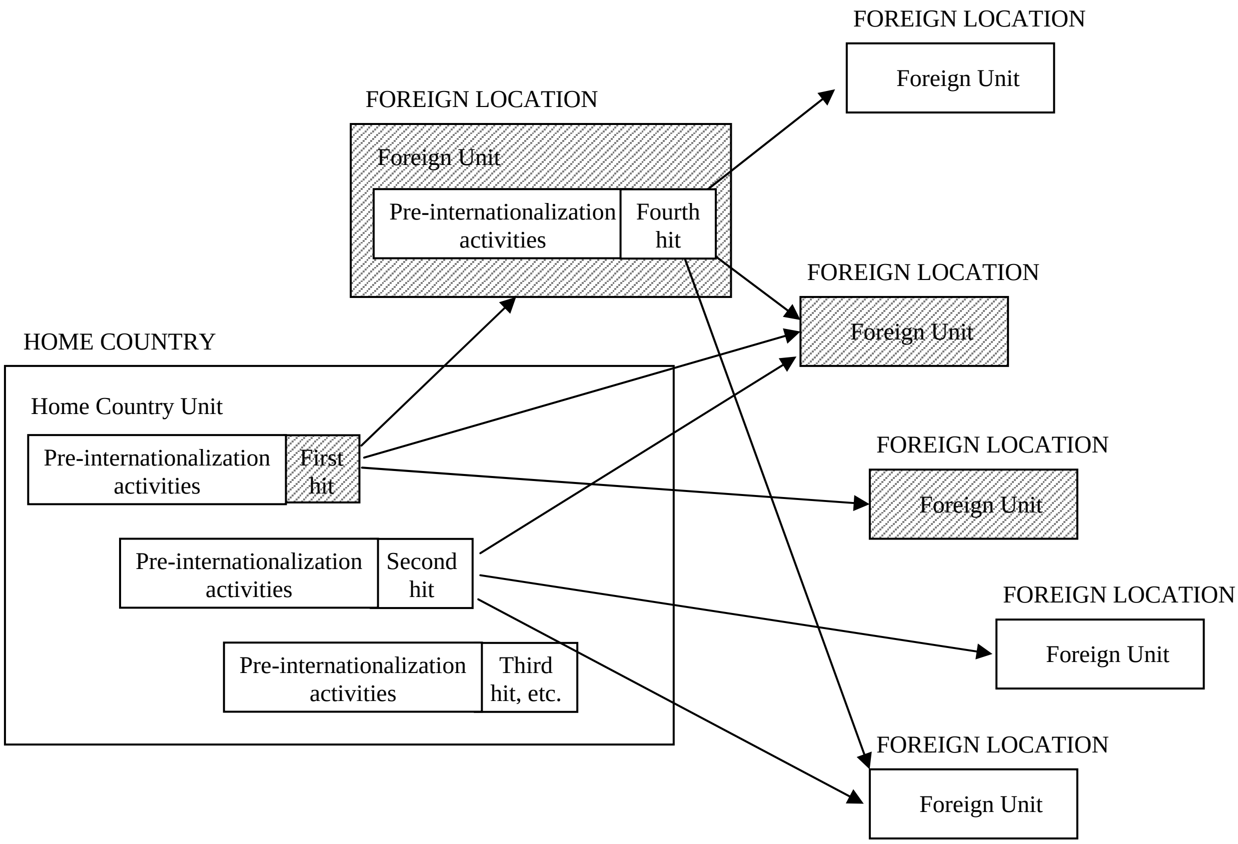
First, the original model is based on the assumption that managers act only once entrepreneurial opportunities have been identified and proven in the domestic market. While cumulative processes play a central role in the subsequent internationalization of the firm, what precedes its first step into foreign markets is by and large treated as a "black box". Indeed, how the underlying opportunity recognition process works, i.e. how managers search for, recognize and act upon opportunities that lead to internationalization in the first place is an under-developed field in the international business literature (Mathews and Zander, 2007). The lack of attention to pre-internationalization processes may partly explain why internationalization process theory has only recently come to address the particular characteristics of international new ventures or so called "born globals" (Oviatt and McDougall, 1994, 1995; Bloodgood et al., 1996; Madsen and Servais, 1997).

Second, the Uppsala model describes the internationalization process of a single-product firm, picturing the linear internationalization of a firm's first major product or "first hit" as it is exploited in foreign markets. Most multinational corporations (MNC), however, develop into multi-product or multi-business firms, and any observed internationalization processes therefore soon become a mix of several products finding their ways into various international markets. Yet, we know very little about the internationalization processes of additional products or "second hits" and how these relate to the firm's first internationalization process. Several largely unexplored questions emerge in this context. Do empirically observed internationalization processes reflect several products finding potentially differentiated ways into international markets? To what extent have additional products or second hits benefited from commitments made and experiential knowledge gained through the initial process of internationalization? Are internationalization processes of these second hits dependent upon or in various ways dictated by the initial attempts to enter foreign markets?

Third, the original model assumes incremental commitments to foreign markets and the stepwise introduction of new activities in each local market. The fundamental perspective is internationalization from one focal point and added resources and activities in a number of foreign locations. As a consequence, very little research has considered and addressed how foreign units may internationalize themselves, i.e. how these units in turn expand outside the borders of the national market in which they are located. This is a highly relevant issue as current research suggests that foreign units are increasingly able to contribute to the strategic and technological development of the MNC group (Andersson, Forsgren and Holm, 2002) and it is known that they are increasingly active in international markets themselves (Forsgren, Holm and Johanson, 1992; Holm and Pedersen, 2000).

The internationalization processes of individual foreign units introduce several questions that are linked to the opportunities and constraints imposed by the existing multinational organization. To what extent do internationalization processes of foreign units draw upon the accumulated experiential knowledge developed in the MNC, specifically the knowledge gained from first, second and additional hits (or the knowledge accumulated in other internationalizing units)? Do foreign units draw upon already established structures of the MNC when entering foreign markets, or do they design internationalization processes specifically suited for locally conceived products? To what extent does the internationalization of foreign units invoke economic, political, or other trade-offs in the internationalization of the entire multinational group?

Figure 1: The internationalization processes of the firm



Paradoxically, because of the three mostly implicit assumptions that underpin the Uppsala model more than three decades of research has produced in-depth knowledge about a limited period and part of the internationalization processes of the firm. This is not to say that the approach has been mistaken or incorrect, but merely points to the fact that there are broad areas of research which have remained essentially unexplored in the international business literature. To illustrate, the shaded areas of Figure 1 highlight the scope of the Uppsala model's traditional internationalization process, starting from the home country unit and gradually extending into a number of foreign locations and units. A first hit is manifested by its exploitation in one or several foreign markets, which can be considered established in terms of volume and acceptance among relevant business network actors (Blankenburg, 1992).

The non-shaded areas indicate internationalization processes that have not been captured by the Uppsala model, but which are all common aspects of the evolving MNC. Because these processes may occur in parallel and also emanate from different parts of the established international organization, we find it relevant to talk about the internationalization processes of the firm and in the case of internationalizing foreign units also about the internationalization of the already established multinational corporation.

THREE UNEXPLORED ISSUES IN THE INTERNATIONALIZATION PROCESS LITERATURE

We now turn to a more in-depth discussion of three unexplored issues in the internationalization process literature, specifically related to opportunity -seeking and the pre-history of internationalization, the internationalization of multiple products within the confines of the growing multinational corporation, and the internationalization of foreign units.

INTERNATIONALIZATION AS AN OPPORTUNITY-SEEKING PROCESS

Studies of internationalization processes, where the firm develops opportunities, are an unexplored research area. The roots of the concept of opportunity development can be traced back to two influential researchers in entrepreneurship, Schumpeter (1934) and Kirzner

(1973). Their legacy has during the 1990s initiated an emerging research tradition where entrepreneurship is viewed as an opportunity development process. But, in the field of international business, research on the proactive firm that develops internationalization opportunities is still missing. Traditionally, research on internationalization has viewed export and production as the main activities driving the process and internationalization has been thought to be driven by a reduction of perceived uncertainty by acquisition of experiential knowledge.

However, this is a rather simplistic view of the firm, which often is a complex organization operating in a dynamic and complex environment. Therefore, we suggest a more extended definition of the firm and the internationalization of the firm (Andersen, 1993). Thus, the original Uppsala model views the firm as a reactive actor while we mean that it is an proactive opportunity-seeking actor, which not only react, but also deliberately and non-deliberately act upon and create business opportunities. In line with Schumpeter's and Kirzner's ideas of opportunities, we see opportunities in the form of new customers, new suppliers, new products and production technologies and new ways of organizing the internal operations as important means which if recognized and acted upon will enhance the internationalization process of the firm, which, in turn, can accelerate the process (Mathews and Zander, 2007). Consequently, opportunities refer to something new for the firm, but also something that is perceived to have a positive impact on the performance of the firm.

The proactivity of the firm implies that it searches for and tries to create opportunities. Traditionally, finding opportunities is not always a product of deliberate search, instead various scholars argue that opportunities are also a product of characteristics of the finder like alertness (Kirzner, 1992) or events and causes that are non-predictable and out of control for the firm, like accidents (Hayek, 1980), serendipity (Denrell, Fang and Winter, 2003) and luck (Barney, 1986) and thereby to a large extent out of logic.

Other approaches indicate that, while still viewing opportunity as something relative and perceptual, a logic how firms find and exploit opportunities can be identified. For instance, the strategy, in terms of activities (Johanson and Johanson, 2006), or the context like the firm's network (Andersson, Blankenburg Holm and Johanson, 2006) or the character of the market entered (Johanson and Johanson, 2006) are observed to have an influence how opportunities are found. But also the firm's and its top-management's prior knowledge base (Shane, 2000) and social networks (Ardichvili, Cardozo and Ray, 2003; Ellis, 2000) and the firm's ability to make sense of an opportunity (Weick, 1995) can play a role in the internationalization of the firm.

Moreover, depending on the firms existing body of knowledge, finding an opportunity can be found somewhere on the continuum from discovery to recognition (Hohenthal, Johanson and Johanson, 2003; Shane, 2000). An opportunity that is perfectly discovered by the firm is completely unknowable ex ante, which means that discovery of opportunities is accompanied by surprise; it was not expected (Demmert and Klein, 2003). On the other hand, an opportunity that is recognized is possible to define and specify in advance, the firm recognized it when it appeared. A perfect recognition of an opportunity corresponds exactly with what was expected ex ante and does not mean a surprise. We therefore advance that the firm finds opportunities based on what it does, what it knows and where it is.

Assuming that firms are opportunity-seekers and not only uncertainty-reducers or cost-minimizers have several consequences for theories on the internationalization of the firm. A specific field that we mean are under-researched is the pre-internationalization of the firm. We do not know enough about how and why firms begin to internationalize. One way of approaching pre-internationalization is by viewing finding and exploiting opportunity as a driving factor. Opportunities are not found in isolation. They are not autonomous, but are more or less likely to be found and exploited dependent on the firm's strategy, organizational structure and knowledge bases. But, they are also contingent on the firm's context. Thus, two critical questions which follow are:

1. How do, for instance, the firm's strategy and activities performed influence the type of opportunities found and exploited?
2. Moreover, how do the firm's context and organizational structure have an impact on what type of opportunities the firm is likely to find?

Most new business opportunities are found in the vicinity of existing business activities (cf. Cyert and March 1963) and as the firm is active in specific markets, while it is entering new, foreign markets, the characteristics of these markets, in terms of stability or turbulence, customers and suppliers, and institutional framework, are likely to influence both how opportunities are found and what type of opportunities are found. For instance, a stable turbulent market where the firm is able to build long-lasting relationships with other firms and where the institutions are transparent and universal is likely to offer opportunities for the firm that differ compared to dynamic market, where institutions, as well as, relationships with other firms are opaque and where it is difficult to make forecast. Thus, it follows that internationalization is usually directed towards specific counterparts situated in specific contexts and the firm thus tends to find opportunities connected to what it does in that specific context.

However, this does not mean that all firms from a specific industry, which are entering the same markets, find and exploit the same opportunities. What type of opportunities and how the opportunities are found and exploited is a result of the knowledge the firm possess. The firm also develops knowledge connected to the specific context thus opening up new business opportunities that could not have been seen without the situated learning process connected to that specific context. These opportunities can usually only be seen from the particular viewpoint of the firm that has developed this unique knowledge configuration.

Opportunities are more or less opaque for firms thus that some opportunities are up for grabs for most firms, while other opportunities are limited to firms with the specific resources and knowledge demanded to exploit that opportunity. The resources and knowledge of a specific firm will have been developed to handle the needs of that firm. These needs are connected to specific products and business counterparts. The skills and capabilities of the firm will thus be connected to the history of that firm. These skills and capabilities will be more or less unique. Entering a new market the firm will see some business opportunities that are relatively opaque for other firms. Besides the liability of newness the entering firm also has an advantage based on bringing a unique set of knowledge to that market. In line with this argumentation, we see propose the following research question:

3. How does the firm's knowledge configuration and learning process, when entering a market, influence the type and way of opportunities found and exploited?

Entering a new market is usually connected to exploiting the unique set of knowledge in a new setting, but as the firm acts in that setting it expands its knowledge, thus widening its opportunity horizon. Within a wider opportunity horizon the chances of finding opportunities will increase. In large complex organizations this opportunity horizon is influenced by both the specific knowledge set of the unit and that of other units within the organization. The chances of finding opportunities will thus be even bigger in these types of organisations.

THE INTERNATIONALIZATION OF MULTIPRODUCTS WITHIN THE MULTINATIONAL CORPORATIONS

According to the Uppsala Model (Johanson and Vahlne, 1977, 1990) firms incrementally increase their knowledge and commitment on international markets. This can be observed in the successive steps that firms make in each foreign market. Managers who operate locally learn from experience of how to do business in the local market and such specific experience is difficult to transfer between markets. Another notion is that firms may decrease the risks resulting from the lack of knowledge about foreign markets by starting their internationalization first in markets nearby and similar to the home market, then move further away. This suggests that knowledge about how to do business is somewhat usable across borders: apparently, having experiences in nearby markets decreases the perceived risks of markets further away. Both notions start from the idea of a parent company in the home market deciding on internationalization: a single, linear process thus. The received literature does not take into account that MNCs are multi-product, multi-business and multi-experience corporations, which complicates the processes of internationalization.

Based on the original Uppsala model, we could argue that internationalization of subsequent businesses can build upon the experiential knowledge acquired in the first process. Market specific knowledge acquired in the first process could be used for establishing a second business in the same market. Subsequent internationalizations should then be seen as expansions of the first market entry, maybe even organized and managed by the first generation managers. Alternatively, it is possible and even likely that subsequent internationalization is initiated and managed at a higher level in the firm; corporate or business headquarters. In that case, we need to describe and explain internationalization of the multinational as being initiated and occurring at several organizational levels, including HQ and subsidiary levels and to consider experiential knowledge among individual managers as well as other forms of organizational learning (cf. Forsgren, 2002).

Are such subsequent internationalization processes quicker, more efficient to execute and less incremental, i.e. are prior experiences usable and has the perceived risk related to subsequent internationalization decreased? Can we therefore expect that the internationalization processe(s) of the multinational corporation occur at an increasing pace, and can we expect that the gradual accumulation of market knowledge allows radical changes in foreign investment behaviour (Forsgren 2002)? A related issue is that with increasing size and resources that follow from being a multinational corporation, the relative risk associated with a certain foreign investment will decrease in the sense that the consequence of failure has limited impact. A contrasting thought thus imply that new foreign investment may occur within the multinational without substantial market experience, which would challenge the assumption on the role of experience driving decisions about foreign investments.

Our paper addresses important questions including the following: where are internationalization processes initiated and organized in the multinational firm? Can we distinguish the internationalization processes of subsequent businesses from the first? Are subsequent internationalization processes path dependent upon prior internationalization? What factors drive internationalization of the multinational in more than one dimension?

MNC's are multi-product, multi-market, multi-unit and multi-technology firms and we propose that initiating internationalization consists of two steps where the first step is when the MNC commit resources towards a specific business in a foreign market, which can either be completely new for the MNC or a market where it is already operating. In both cases, we can talk about an increasing internationalization. The second step is when the MNC begin to exploit the fruits of committed resources and thereby integrate the business into the on-going international operations. Various units in the MNC can initiate new business and not only the HQ or units in the home market. How the MNC as an entity, or specific units within the MNC, acts on the new business is contingent on (i) the degree of decentralization and room of manoeuvre given to the units, (ii) how resources are allocated and used within the MNC and to (iii) what extent the MNC and its units have prior knowledge about this type of business. These three aspects follow Hayek's analysis (1945) of how resources and knowledge is used in a hierarchical economic organization.

The extent to which the various units in the MNC can act upon new businesses is dependent on the degree of decentralization in the organization. In a decentralized MNC the unit enjoy a high degree of freedom to act without consulting the HQ or other units within the MNC and consequently they are likely to act quicker than units in MNC's with a more centralized structure. For MNC's operating in dynamic markets a decentralized structure is preferred as the unit, which perceives changes can also act upon the changes.

However, in order to internationally expanding the business the unit needs resources, since acting implies costs; thus, the unit has to make investment in new resource like products, technologies, competence, etc. The unit can sometimes accumulate resources in order to be used when needed, but there are also resources that are allocated by the HQ or other units in the MNC. Finally, prior knowledge of expanding business internationally, which resides in the MNC, is tightly linked to action taken upon new business, new produces and new markets, as prior knowledge is likely to have given the MNC a cause to develop organizational routines to such situations and processes. Such routines concern, for instance, how decisions are made, communication is performed and opportunities are evaluated.

THE INTERNATIONALIZATION OF FOREIGN SUBSIDIARIES OF THE MNC

Received research on internationalization processes describes and explains how firms internationalize, not how units within a firm internationalize. However, today's reality is that internationalization differs among units within the MNC and that many subsidiaries are internationally active (Forsgren et al 2005). Large subsidiaries have themselves developed into multinational organizations: they coordinate activities within the MNC and they source, produce and sell in other markets than their own. However, the internationalization processes of subsidiaries are unexplored fields of study. In the study of the MNC most researchers have taken a 'HQ-perspective' and devoted attention to HQ-subsidiary relations (Hedlund, 1981; Ghoshal and Nohria, 1989; O'Donnell, 2000) and subsidiary roles in multinational corporations (Bartlett and Ghoshal, 1986; Jarillo and Martinez, 1990; Gupta and Govindarajan, 1991). Others have taken a subsidiary point of view and studied subsidiary strategy (Taggart, 1998), subsidiary development (Araujo and Rezende, 2003; Birkinshaw and Hood, 1998; Holm and Pedersen, 2000), and subsidiary influence (power) over flows of intra-organizational resources and strategic decision-making (Ghoshal and Bartlett 1990, Andersson, Forsgren and Holm, 2007). However, the subject of internationalization of subsidiaries themselves has not been extensively associated to these issues.

Foreign subsidiaries are the actual manifestations of the MNC's international expansion. Successively, subsidiary managers gain business experiences, take initiatives and sometimes make resources available for internationalization beyond their national markets. Whereas the internationalization of the firm from HQ home-country has been labelled internationalization of the first degree, the latter has been labelled internationalization of the second degree (cf. Forsgren, Holm and Johanson, 1992, 2005). With a few exceptions (e.g. Araujo and Rezende, 2003) there has been no explicit investigation on how subsidiaries internationalize and the mechanisms driving the process. Research has yet to study the extent and in what way the belonging to an MNC is driving or possibly restricting the internationalization of subsidiaries. It is in this context unclear how experiences and business opportunities made by subsidiaries themselves result in subsequent internationalization steps (Forsgren, 2002). Opportunities and initiatives for international expansion may arise among several subsidiaries in the MNC. However, given that subsidiaries do not exercise full control over necessary resources and to the extent that their possibilities to influence corporate decisions are limited they cannot undertake whichever internationalization step they want. In our conception, then, the MNC is likely to contain a portion of business opportunities for internationalization at the subsidiary level, which remain unrealized (or delayed) due to the inability of subsidiaries to act upon them, because of limited resources, or inability to communicate their potential, or due to limited influence on political processes within the MNC. This dilemma is contingent on the extent of separation between the units experiencing the opportunities for internationalization (the subsidiaries) and the unit(s) controlling the resources for expansion (e.g. headquarters).

In a contrasting scenario the internationalizing subsidiary more straightforwardly receives and utilizes experiences and resources of other units within the MNC. For instance, the experience from a prior 'hit', made by the home-based unit or other subsidiaries, can facilitate the internationalization of the subsidiary in related areas. Bartlett and Ghoshal (1989) touch upon this issue when stating that subsidiaries "may exploit parent company knowledge and capabilities through world-wide diffusion and adaptation"; although they do not specifically stress the issue of subsidiary internationalization (see also Taggart 1998). Also, when it lies in the interest of peer units, engaged in internal business relationships with a certain subsidiary, resources for development can be supplied for its business development (Forsgren et al 2005). Furthermore, for the purpose of reaching economy of scale, central R&D units develop new products for world-wide exploitation offering the subsidiary a possibility to exploit new business with low or reduced costs. The latter case implies that corporate strategic decisions can drive the subsidiary internationalization of a subsidiary into effect although it (initially) lacks relevant experiences or other resources. For instance, headquarters may provide resources and experience for subsidiaries to follow certain clients abroad or to take responsibility for new operations in foreign markets (Majkgård & Sharma, 1998). Internationalization of the subsidiary is in these cases based on experience, resources and initiatives controlled and taken by other units than the subsidiary.

On the basis of the above discussion we conclude that an issue that deserves attention is where in the multinational decisions and business experience are made regarding internationalization of subsidiaries. This associates to the role of resource interdependencies and cooperation in the intra corporate network and political processes in the MNC. An assumption in the Uppsala model is that the locus of learning is made at the business "frontline". In the MNC this becomes challenging since hierarchical levels to some extent separate centralized resources and strategic decisions from business experience of units at the operational level. Additionally, an MNC may consist of several units with different experiences and capabilities that seek to internationalize (Araujo and Rezende, 2003; Forsgren, 2002). This complicates the commitment decisions at different levels: certain units will hold certain experiences, which are not necessarily consistent, and, in turn, certain units are more able to act in line with such experience due to stronger control over necessary resources.

A NEW RESEARCH AGENDA

While the theoretical underpinnings of the Uppsala model have been explored and tested in detail (Johanson and Vahlne 1990, 2006), several of the underlying assumptions or features of the original model have remained mainly implicit and unchallenged. Three of these implicit assumptions stand out as particularly important: (1) Internationalization starts with a given, original product or business that has no prior history of search and development, (2) the internationalization process is represented by one single product or business expanding into international markets, and (3) internationalization starts in the firm's country of origin and stops at the level of individual foreign units, i.e. once a particular foreign market has been entered it represents a geographical end point in the firm's internationalization process. Of course, the literature has not been ignorant of the resulting biases in theoretical and empirical work, but the issues of pre-internationalization, the internationalization of second hits, and internationalization of foreign units of the established multinational corporation have been largely neglected in the extant literature.

While the internationalization process literature has traditionally drawn upon these simplifying assumptions, it does not accurately reflect the operations of firms and evolving multinational corporations as we know them. The implicit assumptions underpinning the Uppsala model may be applicable during a short period of initial international expansion of the firm, but relatively soon the picture becomes more complex as new products are discovered and make their ways into foreign markets and foreign units become the initiators and drivers of their own internationalization processes (e.g. Zander and Zander, 1996). While to date most empirical work has built on the assumptions and features of the original Uppsala model, acknowledging the complexity of the evolving multinational corporation opens up a broad set of both theoretical and empirical issues. The overarching questions we need to investigate to create a more comprehensive picture of the internationalization processes of the firm include the opportunity-seeking processes that precede and influence internationalization, how second and additional hits of the growing firm internationalize, and how foreign units of the established multinational corporation design and implement their own internationalization processes.

Addressing and answering these questions will give us a better understanding of the evolving and ultimately complex multinational, multi-product organizations. They are also issues of sustained managerial relevance in the growing and evolving multinational corporation, highlighting a number of trade-offs in decision making that concerns products with potentially different resource requirements and units at different organisational levels. As the multinational corporation is associated with exceptional variance in both dimensions, sustained and broadened empirical research on the internationalization processes of the firm promises to provide unique insights and input into other domains of research (Roth and Kostova, 2003). Given the scope of the issues explored in the present paper, opening up the new agenda for research on the internationalization processes of the firm concurrently promises to infuse new steam into a maturing field of research and may become one of the big future questions in the wider field of international business studies (Buckley, 2002; Peng, 2004).

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