The International Trajectory of Small Firms: Is It Possible to Reconcile Different Behavioral Theories?

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Abstract

This paper aims to compare and discuss four perspectives on the internationalization of the firm – the Uppsala Internationalization Process Model, Network theory, International Entrepreneurship theory and the Born Global approach. The purpose is to compare these four theoretical developments regarding: pre-internationalization behavior, motives to internationalize, initial market choices, entry modes, speed of internationalization, attitude towards risk, subsequent operation modes, network role and the engines of the internationalization process. An analysis of these perspectives suggests that such different theoretical lenses are not irreconcilable; rather, they are sometimes complementary and other times can be applied to sequential steps in the internationalization process. We advance that the theoretical propositions derived from the international entrepreneurship and born global approaches can better explain the internationalization process of new firms, while the Uppsala model is more adequate to describe the subsequent steps of the process. We also propose that networking permeates the whole internationalization process, but that it is not as central to the process as suggested by network theory.

Introduction

A current discussion in the literature on firm internationalization concerns the ability of different theoretical developments to explain the internationalization process of smaller firms. Traditional theories, such as the Uppsala IP model (Johanson and Vahlne, 1977, 1990), as well as other stage models, are context-specific. They are inspired by empirical observations of firms during the first part of the twentieth century, when such processes were slower and more typical of larger firms (especially if foreign direct investment decisions are considered). Traditional theories saw the phenomenon of internationalization occurring at advanced stages of the firm's internationalization, after the firm had achieved a certain size. Although exporting by small firms is not a new phenomenon, firms tended to go international at advanced stages of their lifecycle. At the end of the 1980s, another contribution to the behavioral theories emphasized the role of networks in the internationalization process. Such advances originated in the observation that smaller firms are not sole actors in the international arena, but rather internationalize together with others (Bonaccorsi, 1992).

In the 1990s, a new phenomenon called the attention of researchers: the increased entry of smaller firms in international markets, as a result of globalization. These firms seemed to appear in any industry, although they were found more often in high-technology industries. Two new research streams studied and theorized upon the new phenomenon of the internationalization of small entrepreneurial firms – the international entrepreneurship perspective and the born global approach. The first one departed from the extant literature on entrepreneurship, and the second had a rather inductive nature and was proposed by international marketing scholars.

Summarizing, four theoretical perspectives of behavioral inspiration compete to explain the internationalization of smaller firms – the Uppsala IP Model, Network theory, International Entrepreneurship theory and the Born Global approach. The existence of different perspectives to explain the international trajectory of smaller firms suggests the need to develop comparative studies, in order to identify convergent and divergent aspects. This paper examines these four perspectives, compares their core propositions, and discusses the possibility of reconciling them, thus offering theoretical support for future comparative studies.

This paper is organized as follows: after this introduction, we summarize the main aspects of each theoretical perspective; then, we present the theoretical propositions extracted from each theory, covering different stages and aspects of the internationalization process. Finally we discuss similarities and differences and present our final considerations.

2. The Uppsala Internationalization Process Model

The Uppsala IP Model has been developed by several scholars at the University of Uppsala, based on case studies of Swedish multinationals (Vahlne and Wiedersheim-Paul, 1973; Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). The model departs from a behavioral view of the firm inspired in the work of Penrose, Cyert and March, and Aharoni. The international firm is seen as "an organisation characterized by bounded rationality, action-based learning processes and a dispersed and complex structure in terms of resources, competence and influence" (Björkman and Forsgren, 1997, p.15).

Firms would start their activities in the domestic market and only later in their development enter international markets. Before going international, firms would expand into the domestic market, from regional to national (Welch and Wiedersheim-Paul, 1982). The internationalization process is seen as consisting of gradual moves, configuring an "establishment chain", characterized by two elements: choice of markets and choice of entry modes (Björkman and Forsgren, 1997). The choice of markets would follow the logic of psychic distance. Firms would first move to markets with smaller psychic distance, and only later in their international development they would enter psychically-distant markets.

Internationalization would proceed by stages (Vahlne and Wiedersheim-Paul, 1973). The company would initiate its international activities typically as an irregular exporter, serving unsolicited orders, the first stage in the internationalization process. In the second stage the firm would become a regular exporter, using agents and representatives abroad. As exports developed, the firm would move to the third stage, opening a commercial office in the foreign country. Subsequently, it would start foreign operations.

The model suggests that the mechanism for the firm's foreign expansion consists of two sets of aspects (Johanson and Vahlne, 1977): state (market commitment and market knowledge) and change aspects (commitment decisions and current activities). As market knowledge increases, firms tend to increase their commitment, and therefore the amount of resources invested in the foreign market. Such decisions would further increase the firm's commitment to international operations.

An important characteristic of the model is the mechanism by which the internationalization process would feed itself: to more knowledge, more commitment, thus perpetuating the firm's involvement in international operations. The Uppsala model does not consider internationalization as a strategic decision, but rather as a process initiated from the outside, with unsolicited orders, with the firm getting gradually more and more involved with foreign activities, following a learning – commitment cycle. Learning is the engine of the process, because it reduces uncertainty and risk, thus increasing the firm's ability to explore foreign opportunities.

3. Network Theory

Networks are defined as a set of actors and the relationships among them. Network theory (Johanson and Mattson, 1988; Johanson and Hallen, 1989) suggests that the activities of a firm consist of a cumulative process by which relationships are established, nurtured, and eventually broken. A firm may participate in several networks. The structure of a network is formed by several types of ties (e.g. technical, social, legal) and by the strength of these ties. Ties can be formal or informal. Networks are assets and investments in networks are seen as "processes in which resources are committed to create, build or acquire assets which can be used in the future" (Johanson and Mattson, 1988, p.308).

As a result, in network theory both the view of the firm and of the market differ from the traditional view. The market is not seen as external to the firm, but as an environment where several actors are interdependent; the network is the market. And the firm is not seen as an independent and autonomous actor, but as a coalition of interest groups (Weisfelder, 2001).

Since its conception, network theory has been applied to the understanding of the internationalization process of the firm, although it was not developed for this specific purpose. Network theory proposes that "the internationalization of the firm means that the firm establishes and develops positions in relation to counterparts in foreign networks" (Johanson and Mattson, 1988, p.309). Networks are seen both as initiating forces and as facilitators of internationalization (Chetty and Holm, 2000; Lindell and Karazoglu, 1997; Prashantham, 2004).

Although networks may be part of any firm's internationalization process, they seem to be especially important for smaller firms to access international markets. Studying small-sized

Italian firms, Bonaccorsi (1992, p.629) argued that: “The decision to export and the decision to increase export commitment are made by small firms on the basis of the collective experience of the group of firms to which they belong.”

Networks are often present in the beginning of a firm’s internationalization (Johanson and Mattson, 1988; Johanson and Vahlne, 1990):

- when the leader of the network or another focal firm internationalizes (Barbosa, Fuller and Ferreira, 2005; Johanson and Vahlne, 1990);
- when internationalization results from previous social, business, or personal ties (Chetty and Holm, 2000; Eriksson and Chetty, 2003);
- when the firm developed previous import activities or other forms of inward internationalization (Korhonen, Luostarinen and Pelkonen, 1996);
- when a member of an external network approaches a domestic firm because of its reputation or experience (Barbosa, Fuller and Ferreira, 2005);
- when firms imitate other firms (Forsgren, 2002; Johanson and Vahlne, 1990);
- when firms get organized in cooperative groups (Ghauri, Lutz and Tesfom, 2003; Welch *et al*, 1998).

Whatever the form by which networks interfere in the beginning of the internationalization process, firms may utilize the contact with an external network to:

- acquire market knowledge (Chetty and Holm, 2000);
- learn vicariously (Forsgren, 2002; Welch *et al,* 1998);
- acquire know-how to enter foreign markets (Prashantham, 2004);
- access opportunities in a foreign market (Prashantham, 2004);
- overcome barriers to exporting (Ghauri, Lutz e Tesfom, 2003);

- get access to foreign capital (Chetty e Holm, 2000).

In addition, relationships with partners from a foreign network may reduce psychic distance to the specific market and, eventually, also reduce potential “shock effects” in market entry (Pedersen and Petersen, 2004). The network helps, therefore, to reduce risk perceptions associated to internationalization, a crucial aspect in the initial steps of the process. Nevertheless, according to Johanson and Hallen (1989), the entry in a foreign market using a network cannot be seen as a separate or independent event; it is a long-term gradual investment in relationships.

Networks remain important along the internationalization process. They can have a positive impact, creating new opportunities. For example, as the firm builds trust with foreign partners, it tends to increase its commitment to the foreign market, and to have access to resources controlled by members of the external network. On the other side, networks also impose restrictions to the firm’s actions. Mattson (1989) studied the development of firms in networks after their initial foreign market entry and found that networks interfered in the opportunities and restrictions a firm would face in its future development. When a firm belonged to a network, it accepted a reduction on its ability to take solitaire decisions, since positions in a network are interdependent. The more structured the network, more interdependent firms would be, and more reduced their freedom to act. And the larger the amount of resources committed to the development of the network, the stronger the ties with the network in a foreign country.

4. International Entrepreneurship

The literature traditionally considered the internationalization of smaller firms limited to export activities; it was believed they would typically sell their products abroad using intermediaries in the domestic or in a foreign market. This view was challenged by recent research that identified a growing number of "international new ventures" (INVs), younger firms that entered the international market (Oviatt and McDougall, 1994). (Nevertheless, the field of international entrepreneurship covers not only INVs but any entrepreneurial firm with international activities).

INVs are created by entrepreneurs who accept the risks of an early international expansion and have a strategic view of their firm's future. They choose to aggressively pursue international growth opportunities because of their competences and vision. They are motivated to do so because they see internationalization not as a result, by as a means of value creation by combining resources beyond national borders (Autio, 2005; Autio, Sapienza and Arenius, 2005; Fernhaber and McDougall, 2005; Oviatt and McDougall, 1997)

The entrepreneur has a crucial role in the decision to internationalize the new venture (Andersson, 2000; McDougall, Shane and Oviatt, 1994). The characteristics of the entrepreneur – his attitudes, motivations, knowledge, and experience – are of paramount importance to understand the phenomenon of INVs (Andersson, 2000; Simões and Dominguinhos, 2005). Cognitive aspects are also important to the identification of international opportunities (Zahra, Korri and Yu, 2005; Zahra and George, 2002) and to their implementation (Simões and Dominguinhos, 2005). In addition, the entrepreneur's social capital – belonging to social networks, domestic and international – seems to have an important role in the rapid internationalization of INVs (Oviatt and McDougall, 2005; Simões and Dominguinhos, 2005).

Because of their limited resources, INVs tend to adopt alternative structures of governance, using the market modes (e.g. licensing and franchising) than hierarchy (opening subsidiaries abroad (Oviatt and McDougall, 1994).

5. Born Globals

Ganitsky (1989) mentioned, in a study of Israeli exporters, firms that were formed with the intention of serving foreign markets. However, the term ‘born globals’ was first used in 1993, in a McKinsey study (Rennie, 1993). Although there is no general agreement on the definition, the term is used to designate new ventures that since their inception perceive the world as one single market, and therefore do not confine their activities to their country of origin. In addition, these firms see international markets as growth opportunities. They produce specialized products to serve international market niches and have access to international networks (Knight and Cavusgil, 1996; Madsen and Servais, 1997; Rennie, 1993).

In spite of many studies that focused on high-technology industries and the assumption that high-tech born globals represent the new phenomenon (Bell, 1995; Knight and Cavusgil, 1996; Sharma and Blomstermo, 2003), research evidences suggest that born globals can appear in any industry, with high or low technological content (Rennie, 1993). Industry forces might however impact on the appearance of born globals (Andersson and Wictor, 2003).

There is also no consensus on the role of geographic location. Bloodgood, Sapienza and Almeida (1996) suggested that more INVs would appear in Europe and Asia than in the U.S., because of the attraction of a large domestic market and the reduced participation of U.S. firms in international supply chains. Zuchella (2002) also argued that these firms would appear more easily in smaller domestic markets.

The motives to become a born global seem to be associated with a global mind-set of their owners or managers. Nevertheless, Rasmussen, Madsen and Evangelista (2001), studying a few cases of born global firms, did not find internationalization as a major goal in their inception.

Certain characteristics of born globals identified in several studies are:

- Innovation, technological advantages and differentiation – Born globals are more innovative and have technological advantages over their competitors (Autio, Sapienza and Almeida, 2000; Bloodgood, Sapienza and Almeida, 1996; Knight and Cavusgil, 2004; Moen, 2002);
- Use of focus strategies – They tend to have a more specialized product line and to be more focused in market niches (Chetty and Campbell-Hunt, 2004; Madsen and Servais, 1997; Moen, 2002).
- Market orientation – They have a stronger market orientation than their counterparts (Knight, Madsen and Servais, 2004; Rennie, 1993).
- Importance of networks – Social, business and personal networks are crucial for a born global to enter and operate in foreign markets (Knight and Cavusgil, 1996; Loane, 2006; Rasmussen, Madsen and Evangelista, 2001; Zuchella, 2002).
- Use of Information Technology – Born globals use more IT than their counterparts (Loane, 2006; Moen, 2002; Sinkovics and Bell, 2006).

- International orientation – Decision makers in born global firms are more oriented towards international markets than those of traditional firms (Bloodgood, Sapienza and Almeida, 1996; Harveston, Kedia and Davis, 2000).
- International experience – Decision makers in born-global firms have more international experience than their counterparts (Bloodgood, Sapienza and Almeida, 1996; Harveston, Kedia and Davis, 2000; Loane, 2006).
- Attitude towards risk – Decision makers in born global firms are more tolerant to risk than their counterparts in traditionally internationalized firms (Harveston, Kedia and Davis, 2000; Knight and Cavusgil, 1996).

6. Propositions Extracted from the Literature on the Four Perspectives

The literature reveals similarities and differences among the four theoretical perspectives examined in the literature. In this section, we list the propositions emanating from the literature on central issues related to the internationalization process as viewed by each theoretical perspective. For practical reasons, the four perspectives are named as follows: UM – Uppsala Model; NT – Network Theory; IE – International Entrepreneurship; BG – Born Globals.

<u>Pre-Internationalization Behavior</u>

- Reactive behavior (UM-1) – Pre-export behavior is characterized by firms sporadically receiving unsolicited orders from foreign buyers.
- Interdependent behavior (NT-1) – Before a firm internationalizes it may be contacted by members of external networks, observe the actions of other firms in its own network, or follow a focal firm in the network.

- Proactive behavior (IE-1, BG-1) – The firm initiates the internationalization process, actively searching for new opportunities abroad (for example, visits abroad or participation in international trade fairs).

<u>Main Motivations</u>

- Foreign demand (UM-2) – With an increasing flow of unsolicited orders from abroad, the company decides to serve foreign markets.
- Bandwagon effect or client following (NT-2) – Firms are motivated by imitation (isomorphic behavior) or by the need to follow the network or the client.
- Market seeking (IE-2) – Entrepreneurs are motivated by the desire to grow rapidly, opening new markets.
- International orientation (BG-2) – Firms are created to serve international markets since their inception.

<u>Initial Market Selection</u>

- Logic of psychic distance (UM-3) – Initial market selection follows the logic of psychic distance, selecting markets with lower psychic distance (perceived as more similar to the domestic market).
- Logic of the network (NT-3) – Initial market selection follows the logic of the network, selecting markets where the entrepreneur or the firm already has previous connections, or to where the domestic network is moving or where it is already operating.
- Logic of growth (IE-3) – The entrepreneur is interested in high-growth markets, in which the firm's distinctive competences can be a source of competitive advantage.
- Logic of opportunity (BG-3) – The firm is open to choose any market in the world, since it considers any market potentially attractive.

Initial Choice of Entry Modes

- Risk reduction (UM-4) – The company chooses a lesser-commitment entry mode (typically exporting), thus accepting less control over the international operation.
- Interdependence (NT-4) – The choice of entry mode is related to the needs and characteristics of the network, or of other members of the network (for example, clients expanding to another market); modes with joint control are frequently used (for example, joint marketing groups, shared representatives, joint-ventures, etc.).
- Low cost, low investment (IE-4) – Firms choose low-cost low-investment entry modes, such as licensing, franchising, third-party contracts, etc.
- Any mode (BG-4) – The firm chooses any entry mode that seems adequate at the time.

Attitude towards Risks in the Internationalization Process

- Minimize risks (UM-5) – Managers' attitudes towards risk include the need to proceed cautiously with small steps and not to accept unnecessary risks.
- Reduce risks using the network (NT-5) – The network protects the firm against risks and reduces uncertainty.
- Accept risks to grow (IE-5, BG-5) – Risk acceptance is perceived as a pre-condition to rapid growth.

Speed of Internacionalization

- Slow, gradual process (UM-6) – Internationalization proceeds with slow, gradual steps, as the firm acquires experiential knowledge on foreign markets and increases its commitment (in terms of both resources and degree) to internationalization.

- Speed determined by the network (NT-6) – The speed of the firm's internationalization process depends, at least to some extent, on the speed of the network's internationalization process, or on the opportunities generated by the network abroad, or on the attractiveness of the network to foreign buyers.
- Accelerated process (IE-6) – Internationalization evolves rapidly and it is not limited by firm resources, since knowledge (INV's most important resource) is mobile and intangible, and is combined to the partners' fixed assets in foreign markets.
- Accelerated process (BG-6) – Firms proceed in an accelerated pace in search of customers in the global niche served.

<u>Subsequent Modes of Operation</u>

- From lesser- to higher-commitment modes (UM-7) – Firms adopt modes of increased commitment and control: from sporadic to regular exporting with exclusive representatives, and to the opening of commercial offices, and foreign direct investment (first assembling and then manufacturing).
- Modes limited by the network (NT-7) – The adoption of subsequent modes of operation tends to be limited, although not determined, by the network; shared control is frequent.
- Any mode (IE-7, BG-7) – Subsequent modes of operation are not predicted by these two perspectives and are assumed not to follow any pre-determined mode.

<u>Relationship between Growth and Internationalization</u>

- Internationalization follows growth (UM-8) – International expansion occurs in a more advanced stage of the firm's lifecycle, after it has moved from regional to national.
- No pattern (NT-8) – Larger and smaller firms may internationalize using their networks, and internationalization may or may not be conducive to firm growth.

- Growth follows internationalization (IE-8, BG-8) – International expansion is perceived by the entrepreneur and the firm as a requirement for growth.

Role of Networks in the Internationalization Process

- Eventual (UM-9) – Networks may be part of the internationalization process.
- Central (NT-9) – A large number of firms, especially small and medium-sized firms and industrial firms, internationalize using networks.
- Strategic (IE-9) – Entrepreneurs use, develop, and strengthen their networks to support the internationalization process.
- Instrumental (BG-9) – Social, business, and personal networks are instrumental in the internationalization process, especially in the beginning of the process.

Engine of Internationalization

- Self-feeding (UM-10) – The internationalization process is self-fed by a cycle of 'learning – commitment'.
- Interdependence (NT-10) – As internationalization increases, interdependence among network members also increases.
- Value creation (IE-10) – Knowledge and distinctive competences are the engine of internationalization.
- Global mind-set (BG-10) – The engine of internationalization is the vision of the world as a single market.

Table 1 summarizes the theoretical propositions emanating from the literature.

7. Discussion and Final Considerations

The comparison of the previous theoretical propositions suggests that:

- Strong convergence and complementariness between the International Entrepreneurship and the Born Global perspectives – International entrepreneurship theory and the born global approach are highly compatible, as it is often recognized. The geneses of these two approaches occurred almost simultaneously, with a small advantage to international entrepreneurship. They look at the same phenomenon, the accelerated internationalization of small new ventures. As to differences between the two approaches, international entrepreneurship has its theoretical roots in the entrepreneurship literature (Simões and Dominguinhos, 2005), while the born global approach received most of its contributions from international marketing. Therefore, the first is biased towards aspects internal to the firm (mainly, the role of the entrepreneur), while the latter is more concentrated on external factors. To some extent, the born global perspective can be understood as a special case of the more general international entrepreneurship perspective, covering only firms that internationalize after their inception. The differences between the two perspectives are thus explained by their different geneses; nevertheless, they are reconcilable and can be easily integrated.

Table 1 – Summary of the Comparison of the Four Theoretical Perspectives

Element	**Uppsala Model (UM)**	**Network Theory (NT)**	**International Entrepreneurship (IE)**	**Born Globals (BG)**
Pre-Internationalization Behavior	Reactive	Interdependent	Proactive	Proactive
Main Motivations	Foreign demand	Bandwagon effect and client following	Market seeking	International orientation
Initial Market Selection	Logic of psychic distance	Logic of the network	Logic of growth	Logic of opportunity
Initial Choice of Entry Modes	Risk reduction	Interdependence	Low cost, low investment	Any mode
Attitude towards Risks in the Internationalization Process	Minimize risk	Reduce risks using the network	Accept risks to grow	Accept risks to grow
Speed of Internationalization	Slow, gradual process	Speed determined by the network	Accelerated process	Accelerated process

Subsequent Modes of Operation	From lesser- to higher-commitment modes	Modes limited by the network; shared modes	Any mode	Any mode
Relationship between Growth and Internationalization	Internationalization follows growth	No pattern	Growth follows internationalization	Growth follows internationalization
Role of Networks in Internationalization	Eventual	Central	Strategic	Instrumental
Engine of Internationalization	Self-feeding	Interdependence	Value creation	Global mind-set

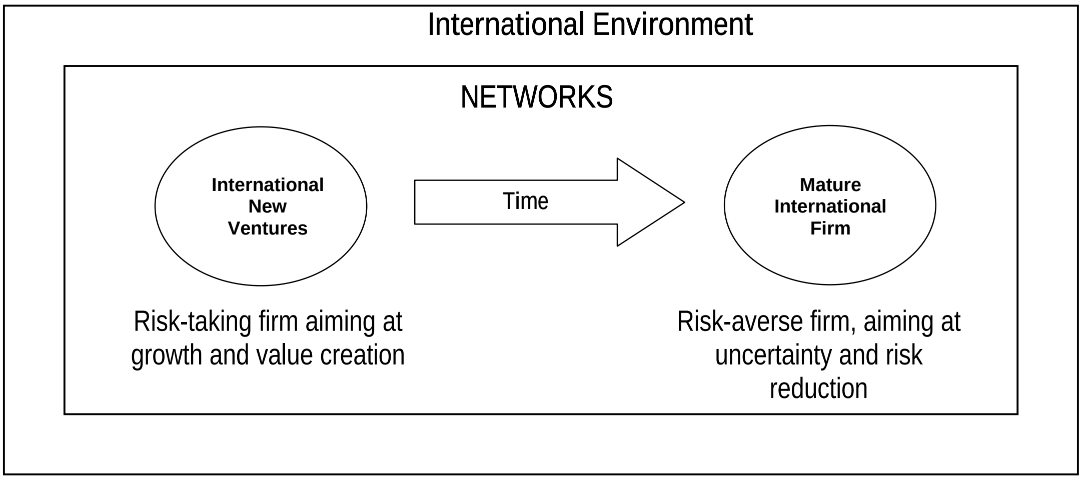
- Substantial differences between the Uppsala Model and Network Theory – Differences and similarities between the two theoretical perspectives were discussed by Johanson and Vahlne (1990). In spite of their defense of the integration of the two models (at least in certain aspects), and the fact that Johanson is one of the proponents of both theoretical perspectives, these theories are not fully reconcilable, mainly because the logic behind them is different. The engine of internationalization in the Uppsala model is self-feeding, while in Network theory it is the interdependence among the members of the network. While the Uppsala model sees the firm as a stand-alone actor, network theory broadens the view of the firm to the network, with several actors acting interdependently across national borders.. Nevertheless, the two perspectives are similar in that the Uppsala model and Network theory see internationalization as a gradual process. Key concepts of the Uppsala model, such as market knowledge and market commitment, are not incompatible with Network theory. In fact, foreign partners permit the reduction of psychic distance and risk perception, by transferring market knowledge, therefore fostering market commitment.
- Apparently irreconcilable differences between the two traditional perspectives (the Uppsala Model and network theory) and the new theories (International Entrepreneurship and Born Global) – Traditional theories suggest a more reactive approach to internationalization, while the new theories defend a more proactive attitude towards internationalization. Behind the differences, there is the question of how theories deal with the risk component of internationalization. The Uppsala model and Network theory see the firm as risk averse, while the two more recent perspectives suggest that firms and entrepreneurs are willing to accept risks, seen as inevitable to enter and conquer international markets. It is probably this difference

that makes it hard to reconcile the traditional and the “new” behavioral theories of internationalization.

In spite of the differences to explain the internationalization process, some aspects of these theories can still be reconciled if we look at the international trajectory of firms during time. We advance that these different theoretical perspectives may be more useful in explaining certain stages of the internationalization process and not others.

Considering the small entrepreneurial firm, the object of study of the “new” theories, it is possible to suppose that the international entrepreneurship and the born global perspectives are useful to describe the inception of these firms and their early years. As firms evolve in their lifecycle, become more mature and loose some of their flexibility, they would tend to become more risk averse. At a later stage, therefore, the Uppsala model might be more useful to describe their trajectory. Finally, networks would appear in the whole process, but not with the centrality attributed to them in Network theory.
Figure 1 shows how a INV grows into a mature business, better explained by the Uppsala Model.

Figure 1 - International Trajectory of INVs



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